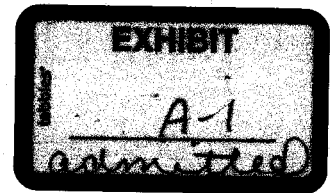




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## BEFORE THE ARIZONA CORPORATION COMMISSION

2004 JUN -4 P 12:24

MARC SPITZER

Chairman

WILLIAM MUNDELL

Commissioner

JEFF HATCH-MILLER

Commissioner

MIKE GLEASON

Commissioner

KRISTIN K. MAYES

Commissioner

AZ CORP COMMISSION  
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2004 FEB -6 P 2:59

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IN THE MATTER OF THE JOINT  
APPLICATION OF RANCHO CABRILLO  
WATER COMPANY, RANCHO CABRILLO  
SEWER COMPANY, ARIZONA-AMERICAN  
WATER COMPANY, AGUA FRIA DISTRICT,  
AND ARIZONA-AMERICAN WATER  
COMPANY, ANTHEM/AGUA FRIA DISTRICT  
[DISTCO] FOR THE TRANSFER OF  
CERTIFICATES OF CONVENIENCE AND  
NECESSITY TO PROVIDE WATER AND  
WASTE WATER UTILITY SERVICES AND  
EXTENSION OF SERVICE AREA

## DOCKET NOS.

W-03898A-04- 0089

SW-03898A-04- 0089

W-01303A-04- 0089

WS-01303A-04- 0089

JOINT APPLICATION FOR  
TRANSFER OF CERTIFICATES  
OF CONVENIENCE &  
NECESSITY AND EXTENSION  
OF SERVICE TERRITORY

Under Ariz. Rev. Stat. §40-281, A.A.C. R14-2-402 and A.A.C. R14-2-602,

Arizona-American Water Company ("Arizona-American"), through its Agua Fria Water District  
("AFWD") and through its Anthem/Agua Fria Wastewater District ("DistCo"), Rancho Cabrillo  
Sewer Company ("RCSC") and Rancho Cabrillo Water Company ("RCWC") submit this joint  
application for transfer of certificates of convenience and necessity (CC&Ns) to Arizona-  
American. The Parties jointly request that the Commission grant the following relief:

1. Approval to transfer Rancho Cabrillo Water Company's Certificate of Convenience and Necessity as set forth on Exhibit C for water utility services to AFWD.
2. Approval to transfer Rancho Cabrillo Sewer Company's Certificate of Convenience and Necessity as set forth on Exhibit C for wastewater utility services to DistCo.

1           3.     Authorization for AFD to extend its existing certificated areas to provide water  
2                     utility services to the areas of State Land set forth on the maps and legal  
                      description attached as exhibit F.

3           4.     Authorization for DistCo to extend its existing certificated areas to provide  
4                     wastewater utility services to the areas of State Land set forth on the maps and  
                      legal description attached as exhibit F.

5     The Parties provide the following information in support of this application.

6                     A.     RANCHO CABRILLO WATER COMPANY.

7                     1.     On July 7, 2000, RCWC filed an application with the Commission for a  
8                     CC&N authorizing RCWC to construct, operate and maintain facilities to provide water utility  
9                     service to the public in a development of approximately 2,500 homes located in Maricopa  
10                    County, approximately 10 miles west of Interstate 17 near Happy Valley Road (the "Rancho  
11                    Cabrillo Development").

12                    2.     RCWC is an Arizona corporation formed to provide water utility service  
13                    to the Rancho Cabrillo Development. RCWC's President and Manager is Steve Robson who has  
14                    interests in several Arizona public utilities. RCWC's local business address is 9532 East Riggs  
15                    Road, Sun Lakes, Arizona 85248 and its telephone number is (480) 895-9200.

16                    3.     In Decision No. 63592 dated April 24, 2001, the Commission granted  
17                    RCWC's CC&N application and authorized RCWC to construct, maintain and operate facilities  
18                    in order to provide water service to the public in the Rancho Cabrillo Development. A copy of  
19                    Decision No. 63592 is attached as exhibit A and incorporated herein by reference.

20                    4.     On August 20, 2002, AFD and DistCo filed a joint application with the  
21                    Commission for an extension of their respective service territories as part of an overall plan to  
22                    develop a water distribution and wastewater collection and treatment system to serve planned  
24                    developments in the area northeast of Sun City West. In that application under Docket No. WS-  
01303A-02-0633, AFD and DistCo sought an extension of their service territories in order to

1 implement a master planned, regional water and wastewater treatment system. As part of that  
2 master plan, Arizona-American engineered and completed water and wastewater master plans for  
3 those areas, including the CC&N Areas of RCWC and RCSC. In that application, AFWD and  
4 DistCo advised the Commission that, due to operational and financial advantages of constructing  
5 a master planned, regional water and wastewater system, RCSC, RCWC and the Developer for  
6 the Rancho Cabrillo Development had requested that Arizona-American provide water and  
7 wastewater service to the Development. On March 24, 2003, the Commission issued Decision  
8 No. 65757 and granted AFWD's and DistCo's application to extend its service territories as  
9 noted above. A copy of Decision No. 65757 is attached as exhibit G. As a result of that  
10 decision, the service areas of AFWD and DistCo are immediately adjacent to the CC&N Areas  
11 of RCWC and RCSC.

12           5.       Rancho Cabrillo Development, LLC ("Developer") is the developer for  
13 the Rancho Cabrillo Development. Steve Robson is the owner of RCSC and RCWC. The  
14 CC&N Areas for RCSC and RCWC comprise approximately 685 acres and are located  
15 immediately adjacent to the certificated service territory of AFWD. The Developer, RCSC and  
16 RCWC have requested that Arizona-American provide public utility water and wastewater  
17 services to the Development. See Rancho Cabrillo Water/Wastewater Agreement dated January  
18 23, 2004 (attached as exhibit B). Arizona-American has agreed to provide water and wastewater  
19 utility service to the Development and CC&N Area.

20           6.       Arizona-American and RCWC jointly submit this application to the  
21 Arizona Corporation Commission for the transfer of RCWC's CC&N to provide public utility  
22 water service to AFWD. The Parties request that the Commission approve this Application for  
24 transfer of RCWC's CC&N to AFWD; and, issue an order granting approval for AFWD to

1 provide water utility service to the area set forth on the legal description and maps attached as  
2 Exhibit C (the "CC&N Area").

3           7. Currently, there are no water utility customers in the Rancho Cabrillo  
4 Development and CC&N Area. RCWC does not have any assets, it is not presently providing  
5 water service to any customers and it has not yet constructed the water system necessary to serve  
6 the Rancho Cabrillo Development. RCWC has not taken any customer security deposits for the  
7 Development and there are no refunds due under any main extension agreements.

8                   **B. RANCHO CABRILLO SEWER COMPANY.**

9           8. On October 5, 2000, RCSC filed an application with the Commission for a  
10 CC&N authorizing RCWC to construct, operate and maintain facilities to provide wastewater  
11 utility service to the public in the Rancho Cabrillo Development.

12           9. RCSC is an Arizona corporation formed to provide wastewater utility  
13 service to the Rancho Cabrillo Development. RCSC's President and Manager is Steve Robson  
14 who has interests in several Arizona public utilities. RCSC's local business address is 9532  
15 East Riggs Road, Sun Lakes, Arizona 85248 and its telephone number is (480) 895-9200.

16           10. In Decision No. 63658 dated May 4, 2001, the Commission granted  
17 RCSC's CC&N application and authorized RCWC to construct, maintain and operate facilities in  
18 order to provide wastewater service to the public in the Rancho Cabrillo Development. A copy  
19 of Decision No. 63658 is attached as exhibit D and incorporated herein by reference.

20           11. For the reasons noted in paragraphs 4 and 5 above, Developer and RCSC  
21 have requested that DistCo provide public utility wastewater services to the Development. See  
22 Ranch Cabrillo Water/Wastewater Agreement dated January 23, 2004 (exhibit B). Arizona-

24



1 American has agreed to provide water and wastewater utility service to the Development and  
2 CC&N Area.

3 12. Arizona-American and RCSC jointly submit this application to the  
4 Arizona Corporation Commission for the transfer of RCSC's CC&N to provide public utility  
5 wastewater service to DistCo. The Parties request that the Commission approve this  
6 Application for transfer of RCWC's CC&N to DistCo; and, issue an order granting approval for  
7 DistCo to provide wastewater utility service to the area set forth on the legal description and  
8 maps attached as Exhibit C (the "CC&N Area").

9 13. Currently, there are no wastewater utility customers in the Rancho  
10 Cabrillo Development and CC&N Area. RCSC does not have any assets, it is not presently  
11 providing utility service to any customers and it has not yet constructed any facilities necessary  
12 to serve the Rancho Cabrillo Development. RCSC has not taken any customer security deposits  
13 for the Development and there are no refunds due under any main extension agreements.

### 14 III. ARIZONA-AMERICAN WATER COMPANY.

#### 15 A. Company Name.

16 14. Arizona-American is an Arizona corporation engaged in providing water  
17 and wastewater services in Maricopa County, Arizona. Arizona-American is a wholly-owned  
18 subsidiary of American Water. American Water is part of RWE Thames Water and serves  
19 approximately 20 million customers in 28 states, four Canadian provinces, Puerto Rico and  
20 South America. Arizona-American provides water and wastewater services to more than  
21 115,000 customers in Arizona. Arizona-American holds CC&Ns to provide water and  
22 wastewater service in Arizona.

1                   15.     Arizona-American's local business address is 19820 North 7th Street,  
2 Suite 201, Phoenix, Arizona 85024 and its telephone number is (623) 445-2400. Arizona-  
3 American has over 120 employees, including several registered engineers and numerous certified  
4 operators as authorized by the Arizona Department of Environmental Quality.

5                   **B.     Articles of Incorporation and Certificate of Good Standing.**

6                   16.     Arizona-American's Articles of Incorporation are on file with the Arizona  
7 Corporation Commission. With this application, Arizona-American provides its Certificate of  
8 Good Standing issued by the Commission on January 29, 2004 (Exhibit E).

9                   **C.     The Rancho Cabrillo Development and Facilities.**

10                  17.     Arizona-American has been requested by RCWC, RCSC and Developer to  
11 provide public utility water and wastewater services to the Rancho Cabrillo Development.  
12 Arizona-American has executed a Rancho Cabrillo Water/Wastewater Agreement dated January  
13 23, 2004 with Developer, RCWC and RCSC for the Development (Exhibit B). Under that  
14 Agreement, Developer, RCWC and RCSC requested that Arizona-American take over the  
15 respective CC&Ns of RCWC and RCSC and provide water and wastewater utility services to the  
16 Development. Further, RCWC and RCSC agreed to transfer their respective CC&Ns to Arizona-  
17 American. The Parties seek authority to transfer the respective CC&Ns of RCWC and RCSC to  
18 AFWD and DistCo; and Arizona-American plans to serve the Rancho Cabrillo Development  
19 through its water and wastewater master plans.

20                  18.     The Parties submit that transfer of the RCSC and RCWC CC&Ns to  
21 Arizona-American is reasonable, necessary and in the public interest. There is a public need and  
22 necessity for public utility water and wastewater services in the Rancho Cabrillo Development.  
24 The CC&N Area is immediately adjacent to AFWD's and DistCo's current certificated service

1 territories. As evidenced by the requests for service, the CC&N Area is undergoing new  
2 development. The new residents and businesses that will be located in the CC&N Area will need  
3 water utility services. As such, Arizona-American requests certification to provide public water  
4 and wastewater utility services in the CC&N Area set forth on Exhibit C. The CC&N Area is  
5 not currently being served by another certificated water utility. Further, RCSC and RCWC no  
6 longer desire to provide service to the CC&N Area and the Developer has requested that  
7 Arizona-American take over water and wastewater utility services to the CC&N Area.

8           19. As noted above, Arizona-American has executed a Ranch Cabrillo  
9 Water/Wastewater Agreement dated January 23, 2004 for the Development. To meet the public  
10 utility water service needs for the Development, on-site water and wastewater facilities must be  
11 constructed to serve the Development. Under the Agreement, Developer shall construct or have  
12 constructed for future use and operation by Arizona-American necessary water and wastewater  
13 facilities to serve the Development as set forth in Exhibit B. The Parties submit that the  
14 provisions of the Agreement are reasonable and in the public interest. There is a public need and  
15 necessity for public utility water services in the CC&N Area.

16           20. A summary description of the proposed water and wastewater facilities to  
17 be constructed to serve the Development, along with engineering details, are set forth in the  
18 Agreement (Exhibit B) and Arizona-American's master plans. Specifically, attachment D to the  
19 Agreement provides a description of the proposed facilities to be constructed.

20                           **D. Extension Area.**

21           21. As part of this application, Arizona-American seeks approval to extend the  
22 existing certificated areas of AFWD and DistCo to provide water and wastewater utility services  
24 to the areas of State Land set forth on the maps and legal description attached as exhibit F (the

1 "Extension Areas"). Those sections of state land are adjacent to the RCSC and RCWC  
2 certificated service areas.

3 22. Arizona-American asserts that extension of the AFWD and DistCo  
4 respective CC&Ns to include the Extension Areas is reasonable, necessary and in the public  
5 interest. There is a public need and necessity for public utility water and wastewater services to  
6 include such state lands in the overall water and wastewater master plans of Arizona-American  
7 for that area. The Extension Areas are immediately adjacent to the RCSC and RCWC  
8 certificated service territories. It is in the public interest to extend AFWD's and DistCo's service  
9 territories to include the Extension Areas along with this transfer application so that the entire  
10 area can be incorporated into Arizona-American's regional master plans.

11 23. In Decision No. 65757, the Commission approved extensions of Arizona-  
12 American's certificated areas to include state trust land in the service territories of AFWD and  
13 DistCo. On May 23, 2002, the Arizona State Land Department issued a letter supporting the  
14 inclusion of state trust land in the water and wastewater service areas of Arizona-American. A  
15 copy of that May 23, 2002 letter is attached as exhibit H. Representatives of Arizona-American  
16 have spoken with the Arizona State Land Department about the inclusion of the Extension Areas  
17 in the service territories of Arizona-American and the Department has consented to such  
18 inclusion.

19 24. Under these circumstances, Arizona-American requests certification to  
20 provide public water and wastewater utility services in the Extension Areas set forth on Exhibit  
21 F. The Extension Areas are not currently being served by another certificated utility.  
22  
24

1                                   **D.     Rates Proposed To Be Charged.**

2                   25.     For the CC&N and Extension Areas, Arizona-American intends to apply  
3 the authorized rates and charges under its applicable AFWD and DistCo tariffs currently on file  
4 with the Commission for water and wastewater services.

5                                   **E.     Estimated Costs of Construction.**

6                   26.     The estimated construction costs for the proposed facilities to serve the  
7 Development and CC&N Area are set forth in attachment D to the Agreement and Arizona-  
8 American's master plans.

9                                   **F.     Capitalization and Funding.**

10                  27.     The water and wastewater facilities to serve the CC&N Area will be  
11 funded by a combination of developer advances, developer contributions and Arizona-American  
12 funds as set forth in the Agreement. Under the Agreement, Developer will construct and install  
13 the water and wastewater facilities. Certain construction and installation costs advanced by the  
14 Developer in aid of construction will be subject to refund by Arizona-American from revenues  
15 derived from the provision of water and wastewater services. Water and sewer facilities hook-up  
16 fees will be non-refundable contributions in aid of construction. Attachments C and D to the  
17 Agreement address projected advances and refunds for the water and wastewater facilities.

18                                   **G.     Construction Dates.**

19                  28.     The Parties anticipate that project construction will commence  
20 immediately after Commission approval of this application.

21                                   **H.     Service Area Maps.**

22                  29.     Attached Exhibits C and I contain detailed maps and legal descriptions of  
24 the CC&N Area; and, attached Exhibits F and I contain detailed maps and legal descriptions of

1 the Extension Areas.

2 **I. Financial Condition of Arizona-American.**

3 30. Arizona-American is financially sound and able to provide water and  
4 wastewater utility services to the public within the CC&N Area. Appropriate financial  
5 documents for Arizona-American are on file with the Commission. Arizona-American is a fit  
6 and proper entity to have a CC&N for water and wastewater service in the CC&N Area.

7 **J. Agency Approvals.**

8 31. Arizona-American is in the process of obtaining necessary governmental  
9 approvals for utility services in the CC&N Area. Arizona-American anticipates filing a franchise  
10 agreement and other applicable approvals with the Commission as required.

11 32. Arizona-American is in total or substantial compliance with ADEQ water  
12 rules and regulations. Arizona-American has certified operators, on-site managers and other  
13 personnel responsible for providing water and wastewater utility services in the CC&N Area.  
14 Arizona-American and/or Developer is in the process of obtaining an ADEQ Approval to  
15 Construct and anticipates filing such approval with the Commission within 365 days of the  
16 effective date of the Commission's final decision in this matter.

17 **IV. REQUEST FOR APPROVAL.**

18 33. All correspondence regarding this Application should be addressed to:

19 Michael M. Grant  
20 Todd C. Wiley  
21 Gallagher & Kennedy, PA  
22 2575 East Camelback Road  
23 Phoenix, Arizona 85016-9225  
24 (602) 530-8000  
Attorneys for Arizona-American Water Company

1 Blaine Akine, Director of Engineering  
2 Arizona-American Water Company  
3 19820 N. 7<sup>th</sup> Street, Suite 201  
4 Phoenix, Arizona 85024  
5 (623) 445-2401

6 Steve Robson  
7 Rancho Cabrillo Water/Sewer Company  
8 9532 East Riggs Road  
9 Sun Lakes, Arizona 85248  
10 (480) 895-9200

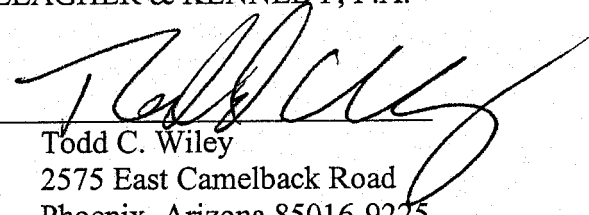
11 Mark Dioguardi  
12 Tiffany & Bosco  
13 1850 N. Central Avenue  
14 Phoenix, Arizona 85004-4546  
15 (602) 255-6000  
16 Attorneys for Ranch Cabrillo Water/Sewer Company

17 34. The Parties respectfully request that the Commission expeditiously  
18 process this Application, schedule a public hearing and issue an order granting this Application  
19 in its entirety. Specifically, the Parties jointly request that the Commission grant the following  
20 relief: (a) Approval to transfer Rancho Cabrillo Water Company's Certificate of Convenience  
21 and Necessity as set forth on Exhibit C for water utility services to Arizona-American, Aqua Fria  
22 Water District; (b) Approval to transfer Rancho Cabrillo Sewer Company's Certificate of  
23 Convenience and Necessity as set forth on Exhibit C for wastewater utility services to Arizona-  
24 American, Anthem/Aqua Fria District; (c) Authorization for Arizona-American, Agua Fria  
Water District to extend its existing certificated areas to provide water utility services to the  
areas of State Land set forth on the maps and legal description attached as exhibit F; and (d)  
Authorization for Arizona-American, Anthem/Aqua Fria District to extend its existing  
certificated areas to provide wastewater utility services to the areas of State Land set forth on the  
maps and legal description attached as exhibit F.

1  
2 RESPECTFULLY SUBMITTED this 6<sup>th</sup> day of February, 2004.

3 GALLAGHER & KENNEDY, P.A.

4  
5 By

  
Todd C. Wiley  
2575 East Camelback Road  
Phoenix, Arizona 85016-9225  
Attorneys for Arizona-American  
Water Company

6  
7  
8  
9 **Original and thirteen** copies filed this  
10 6th day of February, 2004, with:

11 Docket Control  
12 Arizona Corporation Commission  
13 1200 West Washington  
14 Phoenix, Arizona 85007

COPIES of the foregoing hand-delivered  
this 6<sup>th</sup> day of February, 2004, to:

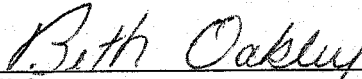
15 Hearing Division  
16 Arizona Corporation Commission  
17 1200 West Washington  
18 Phoenix, AZ 85007

Ernest Johnson  
18 Director of Utilities  
19 Arizona Corporation Commission  
20 1200 West Washington  
21 Phoenix, AZ 85007

Chris Kempley  
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1 Mark Dioguardi  
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2 1850 N. Central Avenue  
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3 (602) 255-6000  
Attorneys for Ranch Cabrillo Water/Sewer Company

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5 1156141v2

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A

BEFORE THE ARIZONA CORPORATION COMMISSION

DOCKETED

APR 24 2001

WILLIAM A. MUNDELL  
CHAIRMAN  
JIM IRVIN  
COMMISSIONER  
MARC SPITZER  
COMMISSIONER

DOCKETED BY

*sd*

IN THE MATTER OF THE APPLICATION OF  
RANCHO CABRILLO WATER COMPANY FOR  
A CERTIFICATE OF CONVENIENCE AND  
NECESSITY TO PROVIDE WATER SERVICE

DOCKET NO. W-03898A-00-0474

DECISION NO. 63592

OPINION AND ORDER

DATE OF HEARING: February 8, 2001

PLACE OF HEARING: Phoenix, Arizona

PRESIDING JUDGE: Mr. Stephen Gibelli

APPEARANCES: Mr. Mark D. Dioguardi, TIFFANY AND BOSCO, on  
behalf of Rancho Cabrillo Water Company;

Mr. Devinti M. Williams, Staff Attorney, Legal  
Division, on behalf of the Utilities Division of the  
Arizona Corporation Commission.

**BY THE COMMISSION:**

On July 7, 2000, Rancho Cabrillo Water Company ("Rancho Cabrillo" or "Applicant") filed an application for approval of a Certificate of Convenience and Necessity ("Certificate") to provide water service for property located in Maricopa County, Arizona, approximately 10 miles west of Interstate 17 near Happy Valley Road.

On August 3, 2000, the Arizona Corporation Commission's ("Commission") Utilities Division ("Staff") filed its Sufficiency Letter indicating that the Applicant has met the sufficiency requirements of R14-2-402C.

On August 8, 2000, a Procedural Order was issued setting the matter for hearing.

On August 17, 2000, Rancho Cabrillo certified that it mailed notice of the hearing to each of its customers by first-class U.S. mail on August 15, 2000.

On October 17, 2000, Rancho Cabrillo filed a request to withdraw the application as a result of its belief that the area was certificated to another company.

1 On October 19, 2000, a Procedural Order was issued vacating the hearing and  
2 administratively closing the docket.

3 On November 30, 2000, Rancho Cabrillo filed a letter indicating that it learned subsequent to  
4 the closure of the docket that the area is not certificated.

5 On December 6, 2000, Staff filed a Response to Rancho Cabrillo's Request to Re-Open the  
6 Docket supporting the re-opening of the docket.

7 On December 7, 2000, a Procedural Order was issued re-opening the docket and setting the  
8 matter for hearing on February 8, 2001.

9 On December 11, 2000, Rancho Cabrillo filed a letter waiving any time clock limitations on  
10 the application.

11 On December 12, 2000, Staff filed its Staff Report in this matter recommending approval of  
12 the application after a hearing.

13 On December 14, 2000, Rancho Cabrillo filed a letter certifying that it noticed each of the  
14 customers within the proposed certificated area of its application and the hearing date of February 8,  
15 2001.

16 On February 8, 2001, a full public hearing was convened before a duly authorized Hearing  
17 Officer of the Commission at its offices in Phoenix, Arizona. Both Rancho Cabrillo and Staff  
18 appeared with counsel. At the conclusion of the hearing, the matter was taken under advisement  
19 pending submission of a Recommended Opinion and Order to the Commission.

20 \* \* \* \* \*

21 Having considered the entire record herein and being fully advised in the premises, the  
22 Commission finds, concludes, and orders that:

23 **FINDINGS OF FACT**

24 1. On July 7, 2000, Rancho Cabrillo filed an application for a Certificate authorizing it to  
25 construct, operate, and maintain facilities to provide water service to the public in a subdivision of  
26 approximately 2,500 homes located in Maricopa County, Arizona, approximately 10 miles west of  
27 Interstate 17, near Happy Valley Road. A legal description of the property is provided in Exhibit A.

28 2. Rancho Cabrillo is an Arizona corporation whose president is Mr. Steve Robson.

3. Mr. Robson has interests in many other public utilities in Arizona.

4. There is presently no water service or customers in the proposed Rancho Cabrillo subdivision. This will be a new water system that has yet to be constructed and consequently, does not have an Arizona Department of Environmental Quality ("ADEQ") operating compliance status.

5. Rancho Cabrillo has not obtained its ADEQ Approval to Construct its facilities or its Certificate of Assured Water Supply ("CAWS").

6. There are no other private or public water companies in the area of the development capable of providing service to customers in the proposed certificated area. No other water utility is better situated to serve this area than Rancho Cabrillo.

7. Initially, the system will be served by two wells, along with the ancillary storage, pressure tanks, pumping stations, and distribution mains.

8. On September 8, 2000, Rancho Cabrillo filed a copy of its water franchise issued by Maricopa County.

9. Rancho Cabrillo estimates that it will serve 250 customers during its first year of operations and will reach 1,250 customers within five years.

10. On December 12, 2000, Staff filed a Staff Report in which it recommended approval of Rancho Cabrillo's application for a Certificate to provide public water utility service in the area sought to be certificated herein together with Staff's own recommended rates and charges for the Applicant.

11. Rancho Cabrillo's proposed rates and charges, as well as Staff's proposed rates and charges are as follows:

	<u>Proposed Rates</u>	
	<u>Company</u>	<u>Staff</u>
<u>Monthly Usage Charges</u>		
5/8" x 3/4" Meter	\$15.27	\$15.45
3/4" Meter	15.27	15.27
1" Meter	32.00	32.00
1 1/2" Meter	48.00	48.00
2" Meter	64.00	64.00
4" Meter	128.00	128.00
6" Meter	256.00	256.00

Commodity Charge

Charge per 1,000 gallons:

1-5,000 gallons usage	\$2.91	\$2.75
5,001 to 20,000 gallons usage	\$2.91	3.00
Above 20,000 gallons usage	2.91	3.50

Service Line and Meter Installation Charges

5/8" x 3/4" Meter	\$0.00	0.00
3/4" Meter	0.00	0.00
1" Meter	0.00	0.00
1 1/2" Meter	0.00	0.00
2" Meter	0.00	0.00
3" Meter	0.00	0.00
4" Meter	0.00	0.00
6" Meter	0.00	0.00

Service Charges

Establishment	\$30.00	\$30.00
Establishment (After Hours)	30.00	30.00
Reconnection (Delinquent)	30.00	30.00
Meter Test (If Correct)	30.00	30.00
Deposit	*	*
Deposit Interest	*	*
Re-Establishment (Within 12 Months)	**	**
NSF Check	15.00	15.00
Deferred Payment	1.5%	1.5%
Meter Re-Read (If Correct)	15.00	15.00

Monthly Service Charge for Fire Sprinkler

4" or smaller	***	***
6"	***	***
8"	***	***
10"	***	***
Larger than 10"	***	***

\* Per Commission Rules (R14-2-403.B)

\*\* Months off system times the minimum (R14-2-403.D).

\*\*\* 1.0% of monthly minimum for a comparable sized meter connection, but no less than \$5.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

12. Staff also recommended that:

(a) the Commission condition approval of the application Rancho Cabrillo on its filing with the Commission, within 365 days from the effective date of the Commission's Decision, a copy of the developer's Certificate of Assured Water Supply and its Approval to Construct;

(b) the Commission approve Staff's proposed rates as set forth in Findings of Fact No. 11;

(c) Rancho Cabrillo notify the Commission within 15 days of providing service to

1 its first permanent customer;

2 (d) Rancho Cabrillo file a rate application within thirty-six (36) months from the  
3 date it provides service to its first customer;

4 (e) Rancho Cabrillo maintain its books and records in accordance with the  
5 NARUC Uniform System of Accounts for Class C water utilities;

6 (f) a provision be included in Rancho Cabrillo's tariff to allow for the flow-  
7 through of appropriate State and local taxes as provided in A.A.C. Rule R14-2-409.D;

8 (g) Rancho Cabrillo file a backflow tariff for Commission approval;

9 (h) Rancho Cabrillo file tariff pages consistent with this Decision within 30 days  
10 from the effective date of this Decision;

11 (i) Rancho Cabrillo submit a letter from ADEQ stating that the water system has  
12 no maximum contaminant level violations and is delivering water that meets the quality standards of  
13 the Safe Drinking Water Act at least 30 days prior to serving its first permanent customer; and that

14 (j) this Decision become null and void without further order from the Commission  
15 should Rancho Cabrillo fail to meet the above conditions within the time frames specified.

16 13. By its fifth year of operation, it is expected that Rancho Cabrillo will have an  
17 investment of \$3,361,800 in this system and a rate of return on investment of 10.89 percent.

18 14. Staff believes that a rate of return of 10.89 percent is adequate to provide sufficient  
19 cash flow for Rancho Cabrillo's operations.

20 15. At the February 8, 2001 hearing, Rancho Cabrillo agreed to abide by all of Staff's  
21 recommendations.

22 16. Mr. Robson has the necessary prior experience in operating public utilities to  
23 successfully operate Rancho Cabrillo Water Company.

24 17. After reviewing the evidence herein, we believe that Staff's recommendations with  
25 respect to Applicant's request for a Certificate and with respect to its initial rates and charges should  
26 be adopted.

CONCLUSIONS OF LAW

1. Applicant is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-281 and 40-282.

2. The Commission has jurisdiction over Rancho Cabrillo and the subject matter of the application.

3. Notice of the application and hearing thereon was provided in accordance with the law.

4. The public convenience and necessity require, and the public would benefit by, the granting of a Certificate of Convenience and Necessity to Rancho Cabrillo Water Company for the area more fully described in Exhibit A.

5. Rancho Cabrillo is a fit and proper entity to provide water utility services in the proposed area, which is more fully described in Exhibit A.

6. Staff's recommendations set forth in Findings of Fact No. 11 and 12 are reasonable and should be adopted.

ORDER

IT IS THEREFORE ORDERED that the application of Rancho Cabrillo Water Company for a Certificate of Convenience and Necessity authorizing it to construct, maintain, and operate facilities in order to provide water service to the public in the areas more fully described in Exhibit A, be and is hereby granted.

IT IS FURTHER ORDERED that Rancho Cabrillo Water Company shall comply with all of Staff's recommendations in Findings of Fact No. 11 and 12.

IT IS FURTHER ORDERED that Rancho Cabrillo Water Company shall file a tariff containing the following schedule of rates and charges:

MONTHLY USAGE CHARGES

5/8" x 3/4" Meter	\$15.45
3/4" Meter	15.27
1" Meter	32.00
1 1/2" Meter	48.00
2" Meter	64.00
4" Meter	128.00



1 6" Meter 256.00

2 COMMODITY CHARGE

2 Charge per 1,000 Gallons from 1 - 5,000 \$2.75

3 Charge per 1,000 Gallons from 5,001 to 20,000 3.00

3 Charge per 1,000 Gallons over 20,000 Gallons 3.50

4 SERVICE CHARGES

4 Establishment \$30.00

5 Establishment (After Hours) 30.00

5 Reconnection (Delinquent) 30.00

6 Meter Test (If Correct) 30.00

7 Deposit \*

7 Deposit Interest \*

8 Re-Establishment (Within 12 Months) \*\*

8 NSF Check 15.00

9 Deferred Payment 1.50%

9 Meter Re-Read (If Correct) 15.00

10 MONTHLY SERVICE CHARGE FOR FIRE

11 SPRINKLER

11 4" or smaller \*\*\*

12 6" \*\*\*

12 8" \*\*\*

13 10" \*\*\*

13 Larger than 10" \*\*\*

14 \* Per Commission Rules (R14-2-403.B).

15 \*\* Months off system times the minimum (R14-2-403.D)

16 \*\*\* 1.00% of monthly minimum for a comparable sized meter connection, but no less than \$5.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

17 IT IS FURTHER ORDERED the rates and charges authorized herein shall be effective for all  
18 service rendered until otherwise ordered by the Arizona Corporation Commission.

19 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

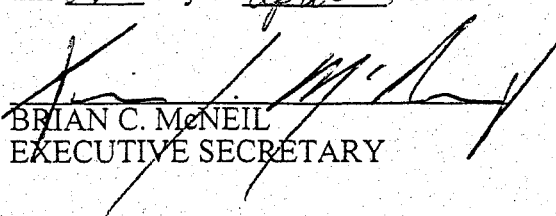
20 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

21   
22 CHAIRMAN

23 COMMISSIONER

24   
25 COMMISSIONER

1 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive  
2 Secretary of the Arizona Corporation Commission, have  
3 hereunto set my hand and caused the official seal of the  
4 Commission to be affixed at the Capitol, in the City of Phoenix,  
5 this 24<sup>TH</sup> day of April, 2001.

6  
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8 BRIAN C. McNEIL  
9 EXECUTIVE SECRETARY  
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DISSENT \_\_\_\_\_  
SG:mlj

SERVICE LIST FOR: RANCHO CABRILLO WATER COMPANY

DOCKET NO. W-03898A-00-0474

Mark D. Dioguardi  
Tiffany and Bosco, P.A.  
1850 North Central Avenue, 5<sup>th</sup> Floor  
Phoenix, Arizona 85004  
Attorney for Applicant

Steve Robson, President  
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Christopher Kempley, Chief Counsel  
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Legal Division  
ARIZONA CORPORATION COMMISSION  
1200 West Washington Street  
Phoenix, Arizona 85007

Deborah Scott, Director  
Utilities Division  
ARIZONA CORPORATION COMMISSION  
1200 West Washington Street  
Phoenix, Arizona 85007

## EXHIBIT A

The following property located in Section 3, Township 4 North, Range 1 West, Gila and Salt River Base and Meridian, Maricopa County, Arizona:

The Southeast quarter;  
 The South half of the Northwest quarter;  
 The South half of the Northeast quarter; and

BEGINNING at the North quarter corner of said Section;

THENCE along the North line of the Northeast quarter of said Section and the North line of said Lots 1 and 2, N89°45'52"E, 2,925.13 feet to the Northeast corner of said Section 3; said corner also being the Northeast corner of said Lot 1;

THENCE along the East line of the Northeast quarter of said Section 3 and the East line of said Lot 1, S0°43'25"E, 1,025.06 feet to the Southeast corner of said Lot 1;

THENCE along the South line of said Lots 1 and 2, S89°54'43"W, 2,625.93 feet to the Southwest corner of said Lot 2;

THENCE along the North-South midsection line of said Section 3 and the West line of said Lot 2, N0°40'56"W, 1,018.33 feet to the point of beginning, and

The following property located in Section 10, Township 4 North, Range 1 West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona:

The North half of Section 10

Maricopa	3	4 North	1 West
COUNTY	SECTION	TOWNSHIP	RANGE

6	5	4		2	1
7	8	9	10	11	12
18	17	16	15	14	13
19	20	21	22	23	24
30	29	28	27	26	25
31	32	33	34	35	36

Type or Print Description Here:

UTILITIES DIVISION  
DECISIONS MAILING LIST

Decision No.: 63592 Date Mailed: 4/25/01  
Company: Rancho Cabrillo Water Co.  
Docket No.: W03898A000474 Type: \_\_\_\_\_  
Transcript No.(s): \_\_\_\_\_

- ☒ Original goes to the Executive Secretary
- ☒ Commission Chairman
- ☒ Commissioner
- ☒ Commissioner
- ☒ Utilities Director (+ 2 copies)
- ☒ Tucson A.C.C.
- ☒ Tucson Utilities
- ☒ Hearing Division
- ☒ Legal Division
  
- ☒ Docket (2 copies)
- ☒ Decision Folder
- ☒ RUCO

Interested Parties:

Steve Robson  
Mark D. DiGuardi

Originator(s) \_\_\_\_\_

INTERESTED PARTIES: WATER/SEWER/ELECTRIC

4 4 Regular Mailing Matters

15 County Board of Supervisors

Stephen Francois - (AZ Department of Revenue): Water & Sewer/CC&N/Rates

Jose Saguid - (AZ Department of Revenue): Electric/CC&N/Rates

David Derron - (AZ Department of Revenue): Telecomm/CC&N/Rates

1

ADEQ

TOTAL 37

Open Meeting Matters - Distribution Cover Sheet

U-116

Company Name Rancho Calivada Water Co.  
 Docket Number W-03898A-00-0474 & \_\_\_\_\_

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2001 MAR 28 P 3:07

UTILITIES Submitted (Pink cover sheet)

	1 <sup>st</sup> . Original - Goes to Cantreze	AZ CORP COMMISSION DOCUMENT CONTROL
	2'd Original and 1 extra copy for the filing basket	
	3 Commissioners (Spitzer, Irvin, Mundell)	
	Hearing - 2 copies	
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	RUCO - 1 copy	
	Director - All remaining copies	

HEARING Submitted

✓	1 <sup>st</sup> Original + 2 copies - Goes to Cantreze
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	3 Commissioners (Spitzer, Irvin, Mundell)
	Legal - 1 copy (Do NOT send Securities matters)
	RUCO - 1 copy
	Director - All remaining copies

List names of all non-A.C.C. people from service list on last page of document

- |                     |          |
|---------------------|----------|
| 1. <u>Dioguardi</u> | 5. _____ |
| 2. <u>Ralston</u>   | 6. _____ |
| 3. _____            | 7. _____ |
| 4. _____            | 8. _____ |

WILLIAM A. MUNDELL  
CHAIRMAN  
JIM IRVIN  
COMMISSIONER  
MARC SPITZER  
COMMISSIONER

OPEN MEETING ITEM



ORIGINAL

BRIAN C. McNEIL  
EXECUTIVE SECRETARY

ARIZONA CORPORATION COMMISSION

DATE: March 28, 2001  
DOCKET NO: W-03898A-00-0474

TO ALL PARTIES:

AZ CORP COMMISSION  
DOCUMENT CONTROL

2001 MAR 28 P 3:07

RECEIVED

Enclosed please find the recommendation of Administrative Law Judge Stephen Gibelli. The recommendation has been filed in the form of an Order on:

RANCHO CABRILLO WATER COMPANY  
(CC&N)

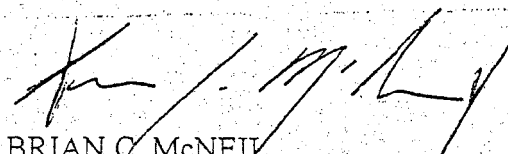
Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and ten (10) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

APRIL 2, 2001

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Working Session and Open Meeting to be held on:

APRIL 17, 2001 AND APRIL 18, 2001

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602)542-4250.

  
BRIAN C. McNEIL  
EXECUTIVE SECRETARY



B

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RANCHO CABRILLO WATER/WASTEWATER AGREEMENT

among

RANCHO CABRILLO DEVELOPMENT, L.L.C.,

RANCHO CABRILLO WATER COMPANY,

RANCHO CABRILLO SEWER COMPANY

and

ARIZONA-AMERICAN WATER COMPANY

Dated as of January 23, 2004

---

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## **EXHIBITS**

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Exhibit C	-	Estimate of Developer's Advances Pursuant to Section 4.5
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Exhibit F	-	Insurance
Exhibit G	-	AAW Master Plan Maps
Exhibit H	-	Escrow Agreement
Exhibit I	-	Form of Notice as to Assignment of Refunds

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## RANCHO CABRILLO WATER/WASTEWATER AGREEMENT

---

AGREEMENT dated as of January 23, 2004, between RANCHO CABRILLO DEVELOPMENT, L.L.C., an Arizona limited liability company ("Developer"), RANCHO CABRILLO WATER COMPANY, an Arizona corporation ("RC Water"), RANCHO CABRILLO SEWER COMPANY, an Arizona corporation ("RC Sewer"), and ARIZONA-AMERICAN WATER COMPANY, an Arizona corporation ("AAW").

### RECITALS:

A. Developer is constructing new residential communities in Maricopa County, Arizona, presently known as Rancho Cabrillo (the "Project"). The Project is being constructed pursuant to a Development Master Plan (DMP 2000005) which was approved by Maricopa County (as may be amended from time to time). The Project area is depicted generally on Exhibit B.

B. AAW holds a certificate of convenience and necessity issued by the Arizona Corporation Commission (the "Commission") regarding AAW's provision of public utility water service to property near the Project.

C. AAW holds a certificate of convenience and necessity issued by the Commission regarding AAW's provision of public utility wastewater service to property near the Project.

D. RC Water holds a certificate of convenience and necessity issued by the Commission regarding Developer's provision of public utility water service to the Project.

E. RC Sewer holds a certificate of convenience and necessity issued by the Commission regarding Developer's provision of public utility sewer service to the Project.

F. Developer desires that AAW provide public utility water and wastewater services in the Project. To that end, RC Water and RC Sewer will each transfer its respective certificate of convenience and necessity to AAW.

G. AAW desires to provide public utility water and wastewater services in the Project. To that end, AAW will apply to the Commission for the expansion of its certificates of convenience and necessity to include the Project.

AGREEMENT:

NOW, THEREFORE, the Parties agree as follows:



ARTICLE I  
DEFINITIONS

1.1 Definitions.

Capitalized terms and other terms used in this Agreement have the meanings set forth in Exhibit A, unless the term is defined elsewhere in this Agreement and unless the context otherwise requires. Those terms include the singular and the plural forms of the defined terms.

ARTICLE II  
AUTHORIZATIONS

2.1 Authorizations.

a. General. AAW will, at its own expense and on a timely basis, take all reasonable steps necessary to obtain, maintain and renew any Authorizations.

b. Developer CC&Ns and Developer Franchises. AAW will prepare and direct the submission of a joint application by AAW, RC Water and RC Sewer to the Commission for the transfer of the Developer CC&Ns from RC Water and RC Sewer to AAW. AAW will have the right (but not the obligation) to prepare and direct the submission of a joint request by AAW, RC Water and RC Sewer to Maricopa County for the transfer of the Developer Franchises from RC Water and RC Sewer to AAW, if AAW deems such transfer necessary or appropriate in connection with AAW's obtaining the Authorizations.

2.2 Cooperation.

The Developer Parties will, at their own expense and on a timely basis, do whatever is necessary to assist AAW to effect the transfer of the Developer CC&Ns and Developer Franchises to AAW, including filing all necessary documents, pleadings, and applications, providing witnesses, evidence and testimony, and participating in hearings. The Developer Parties will, at their own expense and on a timely basis, do whatever is reasonably necessary to assist AAW in obtaining any Authorizations.

2.3 Condition Subsequent.

The obligations of AAW under this Agreement are contingent on obtaining the Authorizations and the transfers of the Developer CC&Ns and Developer Franchises to AAW.

2.4 Application to Commission.

AAW will submit a joint application with RC Water and RC Sewer to the Commission for the transfer of the Developer CC&Ns and the extension of its certificates of convenience and necessity to include the Project (the "Application"). AAW will provide a draft of the Application to the Developer Parties at least 5 days prior to such submission. The Developer Parties will assist AAW in pursuing Commission approval of the Application.

2.5 Consent from Maricopa County.

AAW will submit a joint request with RC Water and RC Sewer to Maricopa County for the transfer of the Developer Franchises. After filing the request with Maricopa County, the Developer Parties will assist AAW in pursuing approval of the request by Maricopa County.

ARTICLE III  
MASTER PLAN

3.1 Master Plan.

a. Preparation by Developer. Developer, at its own expense, shall prepare a comprehensive water and wastewater master plan for the Project ("Developer Master Plan"). The Developer Master Plan, as a minimum, will show locations and sizing of all phases of the On-Site Subdivision Facilities. The Developer Master Plan will be updated and amended from time to time as agreed by Developer and AAW to reflect material changes in development densities, regulatory requirements, expected levels of service, or other factors which significantly impact the development of the Project.

b. Review by AAW. Developer shall provide the Developer Master Plan to AAW for review and approval. Developer will obtain written approval from AAW of the Developer Master Plan before beginning construction of any Facility. These reviews and approvals will be conducted and granted at the cost and expense of AAW. These reviews and approvals will not be unreasonably withheld or delayed by AAW. AAW will conduct its review of the Developer Master Plan within 60 days after receipt of submittal. AAW will provide all comments in writing within that period. Subsequent reviews by AAW of any amendments to the Developer Master Plan will be conducted within 15 days after receipt by AAW of the amendments to the Developer Master Plan. Comments to such amendments will also be provided by AAW in writing. If AAW does not respond in writing within the applicable period, it will be deemed to have approved the Developer Master Plan or the amendment, as the case may be. If AAW does respond with written comments objecting to elements of the Developer

Master Plan within the applicable period, the Developer Master Plan or the amendment (as the case may be) is not approved. Any subsequent resubmission of the Developer Master Plan or the amendment (whether or not revised in response to those comments and any discussions regarding them) will be subject to the same procedures and time periods for review. If AAW approves the Developer Master Plan or the amendment, AAW will so notify Developer.

c. Plan of AAW. AAW has, at its own expense, prepared, revised and completed a comprehensive water and wastewater master plan for the Project and the Adjacent Lands ("AAW Master Plan"). The AAW Master Plan, as a minimum, shows locations and sizing of all phases of the Regional Water Facilities, the Regional Wastewater Collection Facilities and the Regional Wastewater Treatment Facilities. The AAW Master Plan is summarized on the maps attached as Exhibit G (which maps are part of the existing AAW Master Plan). The AAW Master Plan will be updated and amended from time to time to reflect other material changes in development densities, regulatory requirements, expected levels of service, or other factors which significantly impact the development of the Project.

## ARTICLE IV

### ADVANCES, CONTRIBUTIONS AND REFUNDS

#### 4.1 Developer Construction of Facilities.

Developer will construct or cause to be constructed for future use of AAW, in accordance with Article V hereof, (a) all phases of the On-Site Subdivision Facilities (the "Advanced Facilities"), and (b) the Phase IV Regional Water Facilities and the Phase IV Regional Wastewater Collection Facilities (collectively, the "Contributed Facilities").

#### 4.2 Land and Other Property.

##### a. Requisite Land.

i. General. Promptly after Operational Acceptance of a Developer Constructed Facility or any phase thereof (or earlier if mutually agreed), Developer will convey (or cause to be conveyed) to AAW the underlying real property for above-ground facilities, such as wells or pump stations, as mutually agreed upon by AAW and Developer, and any improvements thereon (and any other assets as may be agreed to). As to below-ground facilities, such as subterranean pipes, Developer will provide easements to AAW as provided in Section 4.3.

ii. Future Potable Water Well and Booster Station Sites. Promptly after Operational Acceptance of the Phase IV Regional Water Facilities (or earlier if mutually agreed), Developer will convey (or cause to be conveyed) to AAW the real property required for two potable wells and a water booster station located within the Project (as detailed in the AAW Master Plan) which are to be constructed by AAW as part of the Subsequent Regional Water Facilities, as mutually agreed upon by AAW and Developer, and any improvements thereof (and any other assets as may be agreed to).

b. Cost. All real property to be conveyed to AAW pursuant to paragraph (a) of this Section will be conveyed in fee simple, with valuations being assigned to the real property as follows: (i) for real property located within the Project, a value of \$26,500 per acre, and (ii) for real property located outside the Project, Developer's actual costs in acquiring that real property. The real property as so valued will constitute (1) Developer's Advances with respect to (A) the real property on which the Advanced Facilities are located or (B) to real property conveyed to AAW for potable wells or booster stations as described in paragraph (a)(ii) above, and (2) Reimbursable Costs with respect to the real property on which the Contributed Facilities are located. For purposes of Sections 4.5 and 4.7(a), such values constitute and are deemed to be amounts actually paid by Developer for such real property.

c. Documentation and Title. Developer will execute and deliver to AAW documents of conveyance (including special warranty deeds) in form reasonably satisfactory to AAW to convey all real property to be conveyed to AAW pursuant to paragraph (a) of this Section or pursuant to Section 4.3 or 5.5. The documents of conveyance will be accompanied by an extended coverage title insurance policy in form and substance acceptable to AAW and issued by a title insurance company acceptable to AAW to be issued in the name of and delivered to AAW, with coverage in an amount not less than the amount of the Developer's Advances with respect to the Advanced Facilities, and the amount of the Developer's Contributions with respect to the Contributed Facilities, located on that real property. Prior to issuance of the policy, Developer will cause a preliminary title report (together with copies of surveys of real property, any documents referenced in the report, and any other documents reasonably requested by AAW) to be provided to AAW. If AAW objects to any lien, exception or other encumbrance shown in the preliminary title report, then prior to issuance of the policy (which will be at no cost to AAW)

Developer will cause the lien, exception or other encumbrance to be removed (or provide AAW with a written indemnity or title endorsement with respect thereto in form and substance acceptable to AAW).

#### 4.3 Easements for AAW.

Developer will obtain and convey to AAW all easements, licenses and rights-of-way required for AAW to provide Water Services and Wastewater Services within the Project. In connection with the foregoing, Developer is responsible for obtaining and conveying to AAW (and for paying all costs related to so obtaining and conveying) an easement, license or right-of-way with respect to the crossing of the Beardsley Canal controlled by MWD, but AAW will be responsible for any subsequent annual fees associated with such easement, license or right-of-way. These easements, licenses and rights-of-way will not require AAW to obtain approval of any homeowners' association or similar group for any construction, repair, or replacement of any Facility. If Developer needs to obtain these easements, licenses or rights-of-way from other persons other than its Affiliates, the cost of the easements, licenses or rights-of-ways paid by Developer will constitute (a) Developer's Advances with respect to the real property on which the Advanced Facilities are located, and (b) Reimbursable Costs with respect to the real property on which the Contributed Facilities are located. AAW will cooperate with Developer in Developer's efforts to obtain these easements, licenses and rights-of-way.

#### 4.4 Water Meters

Prior to Final Acceptance of each phase of the On-Site Subdivision Facilities or upon requesting water service to any phase of the On-Site Subdivision Facilities, whichever is first, Developer will submit a cash payment equal to AAW's then current meter installation tariff



for each water meter to be set in said phase, as an advance in aid of construction for all meter installations by AAW.

#### 4.5 Developer's Advances.

The amounts described in Sections 4.1(a) (being the costs of the Advanced Facilities), 4.2(b)(1) (being the value of real property associated with the Advanced Facilities), 4.3(a) (being the costs of easements, licenses and rights-of-way associated with the Advanced Facilities), and 4.4 (being the costs of water meters) above that are actually paid by Developer and invoiced in accordance with Section 5.11(a) will be advances in aid of construction (the "Developer's Advances"). An estimate of each of the categories will be set forth on Exhibit C. If an estimate for any category is not available at the time this Agreement is executed, the components of the category will be described on Exhibit C, with such exhibit subsequently to be updated from time to time when an estimate becomes available.

#### 4.6 Refunds of Developer's Advances.

The Developer's Advances will be subject to refund to Developer by AAW in accordance with Exhibit D.

#### 4.7 Reimbursable Costs.

a. Calculation of Reimbursement for Phase IV. The amounts described in Sections 4.1(b) (being the costs of Contributed Facilities), 4.2(b)(2) (being the value of real property associated with the Contributed Facilities), and 4.3(b) (being the costs of easements, licenses and rights-of-way associated with the Contributed Facilities) that are actually paid by Developer and invoiced in accordance with Section 5.11(a) (the "Reimbursable Costs") will be subject to partial reimbursement by AAW, with the amount of reimbursement being calculated as follows:

i. Proration of Developer's Phase IV Costs. First, the Reimbursable Costs of each component of the Contributed Facilities will be prorated (based on the estimated wastewater flow or water demand, as applicable) among the Project and each proposed development which is to be connected to such component of the Contributed Facilities and which, at the time of Final Acceptance of the Contributed Facilities, has entered into a pro rata cost-sharing agreement with AAW. In furtherance of the foregoing, AAW covenants that, prior to Final Acceptance of the Contributed Facilities, AAW will not enter into any agreement to provide water or wastewater services to the Coldwater Ranch development of William Lyon Homes, Inc. (or any successor or assign of William Lyon Homes, Inc., as to its entire interest in such development) unless such agreement is a cost-sharing agreement described in the preceding sentence.

ii. Phase IV Amount Reimbursable to Developer. Second, the amount to be reimbursed to Developer will equal (A) all Reimbursable Costs paid by Developer for construction of the Contributed Facilities, less (B) Developer's pro rata share of such Reimbursable Costs (i.e., its share as calculated in accordance with paragraph (i) above). Developer's estimated pro rata share of the Reimbursable Costs is set forth on Exhibit E. The reimbursement will be made at the times specified in paragraph (b) below.

b. Timing of Reimbursement.

i. Monthly Amounts. No more often than monthly Developer may submit, in accordance with the requirements of Sections 5.11 and 5.13, monthly progress documentation of Reimbursable Costs. Considering only those developments that have entered into a pro rata cost-sharing agreement with AAW which is then in effect, AAW will estimate the reimbursable portion in accordance with the requirements of Section 4.7(a). The estimated

amount shall be paid to Developer within 15 days of receipt and acceptance of the progress documentation.

ii. Final Amount. On submittal of the final documentation as required by Sections 5.11, 5.12, 5.13 and 5.14, AAW will calculate the final amount due Developer under Section 4.7(a). If the final amount due is more than the estimated amounts previously paid by AAW to Developer, AAW will within 30 days of receipt of the final documentation pay such additional amount to Developer. If the final amount due is less than the estimated amount previously paid by AAW to Developer, Developer will pay AAW such amount within 30 days of being invoiced by AAW.

c. Notice of Cost-Sharing Agreements. As and when AAW enters into cost-sharing agreements as described in Section 4.7(a), AAW will within 30 days thereafter notify Developer of such event and recalculate Developer's pro rata share of the Reimbursable Costs.

#### 4.8 Developer Contributions.

Contributions by Developer in aid of construction (the "Developer's Contributions") will consist of all of the following:

a. The portion of Developer's pro rata share of Reimbursable Costs (i.e., its share as calculated in accordance with clause (i) of Section 4.7(a)) not reimbursed pursuant to Section 4.7.

b. Amounts paid by Developer to AAW pursuant to Section 4.12(c)(i)(D) or 4.12(c)(ii)(B), whether paid directly by Developer to AAW or by AAW's drawing on the Letter of Credit (i.e., Developer's pro rata share of costs under the Webb Agreement and the Portola Agreement, all as calculated in accordance with clauses (A) and (B) of Section 4.12(c)(i)).

#### 4.9 Water and Sewer Facilities Hook-Up Fees.

AAW has applied to the Commission for tariffs allowing AAW to charge developers a hook-up fee within AAW's certificates of convenience and necessity for purposes of funding the construction costs of certain off-site water and wastewater facilities (the "Water and Sewer Facilities Hook-Up Fee"). AAW will apply to the Commission for approval of the application of the Water and Sewer Facilities Hook-Up Fee tariffs to the Project. Approval by the Commission of the application of the Water and Sewer Facilities Hook-Up Fees to the Project will not be a condition to AAW's obligations under this Agreement. Developer acknowledges that the tariffs are subject to being changed by the Commission from time to time.

#### 4.10 Project Facilities Fee.

During any period in which a Water or Sewer Facilities Hook-Up Fee tariff is not in effect, Developer will pay to AAW \$1,500 per ERU for Water Services and \$750.00 per ERU for Wastewater Services (a "Project Facilities Fee"). Payments of the Project Facilities Fee will be made prior to AAW's setting meters for Water Services at a subdivision, commercial development or other user in the Project. One payment of the Project Facilities Fee will be submitted for all ERUs in a phase or unit of a subdivision or commercial development or other user. AAW will use the Project Facilities Fee solely to fund construction of all phases of the Regional Water Facilities and the Regional Wastewater Treatment Facilities. The Project Facilities Fee is not applicable during any period in which a Water or Sewer Facilities Hook-Up Fee tariff approved by the Commission is in effect.

#### 4.11 Offset of Fees.

Developer's Contributions related to water facilities will be subject to offset, dollar for dollar, against the Water Facilities Hook-Up Fee or the water portion of the Project Facilities Fee, as applicable.

#### 4.12 Cost-Sharing Obligation of Developer as to Phase I and Phase II Regional Facilities.

a. Webb Agreement. Developer acknowledges that AAW and Webb Home have previously entered into the Webb Agreement and that Developer has been provided with a copy of the Webb Agreement and with an opportunity to ask questions and receive answers regarding the Webb Agreement. Developer further acknowledges that the Webb Agreement pertains to, among other things, construction by Webb of the Phase I Regional Water Facilities and the Phase I Regional Wastewater Collection Facilities (without which the Developer Constructed Facilities contemplated by this Agreement would not be feasible), that Section 4.7 of the Webb Agreement contemplates that AAW will enter into pro rata cost-sharing agreements with other developments which connect to components of the Phase I Regional Water Facilities and the Phase I Regional Wastewater Collection Facilities, and that AAW is obligated under such Section to reimburse Webb for certain costs to the extent AAW has entered into such cost-sharing agreements. This Agreement constitutes a pro rata cost-sharing agreement within the meaning of Section 4.7 of the Webb Agreement.

b. Portola Agreement. Developer acknowledges that AAW and Portola have previously entered into the Portola Agreement and that Developer has been provided with a copy of the Portola Agreement and with an opportunity to ask questions and receive answers regarding the Portola Agreement. Developer further acknowledges that the Portola Agreement pertains to,

among other things, construction by Portola of certain Phase I Regional Water Facilities and Phase IIA Regional Water Facilities (without which the Developer Constructed Facilities contemplated by this Agreement would not be feasible), that Section 4.7 of the Portola Agreement contemplates that AAW will enter into pro rata cost-sharing agreements with other developments which connect to components of the Phase I Regional Water Facilities and the Phase IIA Regional Water Facilities, and that AAW is obligated under such Section to reimburse Portola for certain costs to the extent AAW has entered into such cost-sharing agreements. This Agreement constitutes a pro rata cost-sharing agreement within the meaning of Section 4.7 of the Portola Agreement.

c. Payment Obligation of Developer.

i. Calculation of Pro Rata Share of Developer.

A. Proration of the Phase I Costs. First, the Reimbursable Costs (as such term is used in the Webb Agreement, and being generally the costs of the Phase I Regional Water Facilities and the Phase I Regional Wastewater Collection Facilities) will be prorated from time to time among Webb, Developer and any other developments in accordance with Sections 4.7(a)(i) and Section 4.7(a)(ii) of the Webb Agreement.

B. Proration of the Phase I Costs – Portola Well. Second, the Reimbursable Costs, as such term is used in the Portola Agreement, and being generally the costs of the Portola Well, which is part of the Phase I Facilities (excluding the costs of the Phase II Regional Water Facilities and the Phase II Regional Wastewater Collection Facilities, which is addressed in this Section in clause (C) below) will be prorated from time to time among Portola, Developer and any other developments in accordance with Section 4.7(a)(i) of the Portola Agreement.

C. Proration of the Phase II Costs. Third, the Reimbursable Costs, as such term is used in the Portola Agreement, and being generally the costs of the Phase IIA Regional Water Facilities (excluding the cost of the Phase IIB Regional Water Facilities, the Phase IIC Regional Water Facilities and the Phase II Regional Wastewater Collection Facilities, which are not subject to cost sharing under this Agreement) will be prorated from time to time among Portola, Developer and any other developments in accordance with Section 4.7(a)(i) of the Portola Agreement.

D. Amount Payable by Developer. The amount payable by Developer pursuant to this Section equals (1) its pro rata share of the costs of the Phase I Regional Water Facilities and the Phase I Regional Wastewater Collection Facilities (i.e., its share as calculated in accordance with clause (A) and (B) above) and (2) its pro rata share of the costs of the Phase IIA Regional Water Facilities (i.e., its share as calculated in accordance with clause (C) above). Developer's payment obligation under this Section is independent of any obligations of AAW to make payments to Developer under this Agreement or otherwise (and is also independent of any payment obligations of Webb, Portola, AAW or any other person under the Webb Agreement, Portola Agreement, or under any other cost-sharing or other agreement or otherwise). As such, Developer's payment obligation under this Section is not subject to any deduction, credit, offset or reduction for any amount which AAW may be obligated to pay Developer under this Agreement or otherwise or for any amount obligated to be paid by or to Webb, Portola, AAW or any other person under the Webb Agreement, the Portola Agreement or under any other cost-sharing or other agreement or otherwise.

E. Timing of Payment by Developer. From time to time and at any time as payments to Webb and Portola become due in accordance with Section 4.7(b) of the

Webb Agreement or Portola Agreement, AAW will invoice Developer for payment of its pro rata share (i.e., its share as calculated in accordance with subparagraph (d)(i)(D) above) of such Phase I Regional Water Facilities, Phase I Regional Wastewater Collection Facilities, or Phase IIA Regional Water Facilities. The amount invoiced will be due and payable by Developer ten (10) days after presentation of the invoice by AAW. Notwithstanding the foregoing (and as long as the Escrow Agreement is in effect, sufficient funds are held in the Escrow Fund, and AAW is able to obtain funds from the Escrow Fund), AAW will obtain payment of such pro rata share by drawing funds under the Escrow Agreement.

ii. Escrow Agreement; Other Rights.

A. Delivery of Escrow Agreement; Deposit of Funds.

Concurrently with the execution of this Agreement, Developer has executed (and has caused the Escrow Agent to execute), and delivered to AAW, the Escrow Agreement in the form attached as Exhibit H and has deposited with the Escrow Agent funds in the amount of \$2,500,000, receipt of which has been confirmed by the Escrow Agent to AAW. If for any reason the Escrow Agreement is unenforceable or AAW is otherwise unable to draw funds thereunder as contemplated by subparagraph (B) below, AAW will have the right (but not the obligation) to terminate this Agreement.

B. Draws on Escrowed Funds. At any time payments to AAW become due in accordance with subparagraph (c)(i)(E) above, AAW will have the right to draw funds under the Escrow Agreement for the amount due. If for any reason the Escrow Agreement is not in effect, if insufficient funds are held in the Escrow Fund, or if the Escrow Agent refuses to honor a draw request under the Escrow Agreement, AAW will have the right to make written demand to Developer to pay to AAW the amount described in subparagraph (c)(i)(E) above, and



Developer will be obligated to pay such amount directly to AAW within ten (10) days of such demand (and Developer will indemnify and hold harmless AAW from and against any and all claims arising in connection with or as a consequence of such ineffectiveness, insufficiency or refusal). AAW will also have the right to offset the amount described in subparagraph (c)(i)(E) above against any refunds or other amounts payable by AAW to Developer under this Agreement. The rights described in this paragraph (ii) are in addition to, and not exclusive of, any other rights and remedies AAW may have under this Agreement or the Escrow Agreement or at law or in equity.

## ARTICLE V

### DEVELOPER-CONSTRUCTED FACILITIES

#### 5.1 Construction Plans and Specifications.

a. Preparation. After approval (or deemed approval) by AAW of the Developer Master Plan, and as and when construction of a phase is contemplated, Developer will complete or cause to be completed (as needed to enable AAW to timely provide Water Services and Wastewater Services to the Project) all engineering, construction plans and specifications necessary for construction of the Phase IV Regional Water Facilities and the Phase IV Regional Wastewater Collection Facilities and of each phase of the On-Site Subdivision Facilities consistent with the approved Developer Master Plan and the AAW Master Plan. All of those engineering, construction plans and specifications will be in accordance with (a) AAW's standards and specifications, which will not be unreasonable for utility construction in Maricopa County, and (b) to the extent applicable, all requirements and rules and regulations of the Commission, Maricopa County (to the extent required by operating agreement, franchise or otherwise), and all other regulatory agencies having jurisdiction. The engineering, construction plans and specifications will also be of sufficient detail to specify material types, manufacturers, and installation methods and procedures, all of which will be in accordance with AAW's standards and specifications, which will not be unreasonable for utility construction in Maricopa County.

b. Approval by AAW. Developer will submit the engineering, construction plans and specifications to AAW for review and approval. AAW will conduct all reviews, make all comments and revisions, and grant all approvals at its own expense. AAW will not unreasonably withhold its review or approval. Together with the engineering, construction plans

and specifications, Developer will submit (for information purposes only and in full-size blueprint format, unless Developer and AAW mutually agree to electronic data format, half-size bond copies, and/or other media) preliminary plats, final plats, address maps and other similar items which may be reasonably requested by AAW. AAW will conduct its review of the engineering, construction plans and specifications within 45 days after receipt of submittal. AAW will provide all comments in writing within that period. Subsequent reviews of any amendments or other changes to the engineering, construction plans and specifications will be conducted within 15 days after receipt of the amendments. Comments to those amendments will also be provided by AAW in writing. If AAW does not respond in writing within the applicable period, it will be deemed to have approved the plans and specifications or the amendment, as the case may be. If AAW does respond with written comments objecting to elements of the engineering, construction plans, and specifications within the applicable period, the engineering, construction plans and specifications or the amendment (as the case may be) is not approved. Any subsequent resubmission of the engineering, construction plans and specifications or the amendment (whether or not revised in response to those comments and any discussions regarding them) will be subject to the same procedures and time periods for review as the initial submission. If AAW approves the engineering, construction plans and specifications or the amendment, AAW will so notify Developer.

c. Early Commencement. Unless otherwise agreed to in writing by Developer and AAW, if Developer begins construction of any Developer Constructed Facilities before all approvals required by this Agreement have been obtained, any subsequent repair, alteration, inspection or reconstruction necessary to comply with such approvals will be the sole responsibility of Developer (and the costs of that repair, alteration, inspection or reconstruction

will not constitute Developer's Advances subject to refund or Developer's Contributions subject to reimbursement or offset).

#### 5.2 Permits, Materials and Labor, Construction.

As and when required to construct Developer Constructed Facilities set forth on the approved construction plans and specifications in a manner that will enable AAW to place them into satisfactory operation as needed to provide timely Water Services and Wastewater Services to the Project, Developer will (a) obtain and pay for all permits, zoning, easements and approvals, including environmental and facility permits, but excluding the costs associated with AAW's obtaining certificates of convenience and necessity from the Commission or franchises from Maricopa County, and (b) provide and pay for all materials and transportation, equipment, power, labor, supervision, testing, insurance, bonds and all else so required for construction of such facilities (including construction management pursuant to contracts with third parties which are not Affiliates of Developer). AAW will cooperate with Developer in connection with Developer's applications for those permits, zoning, easements and approvals. Developer may enter into such engineering, design and construction contracts (including construction management contracts with third parties which are not Affiliates of Developer) as Developer deems appropriate in connection with the design and construction of the Developer Constructed Facilities without approval or review of such contracts by AAW. All construction will be consistent with the approved Developer Master Plan and the AAW Master Plan unless the Parties otherwise agree.

#### 5.3 Operational Acceptance.

Promptly upon request by Developer from time to time, and at such other times as AAW may reasonably deem necessary or appropriate, AAW will inspect all construction of

Developer Constructed Facilities. AAW will conduct inspections within a time period consistent with normal construction procedures after requested by Developer. Developer will comply with the reasonable inspection and testing requirements of AAW. No phase of Developer Constructed Facilities will be placed in service until (i) such phase has been inspected by AAW, (ii) the requirements stated in the next sentence have been satisfied, and (iii) AAW has issued its written acceptance of that phase ("Operational Acceptance"). To be eligible for Operational Acceptance, each phase of the Developer Constructed Facilities for which Developer requests Operational Acceptance must satisfy the following requirements: (A) Developer has made all submittals and obtained all approvals required in accordance with Section 5.1, (B) the submittals are in accordance with the standards, specifications and other requirements, rules and regulations set forth in Section 5.1(a), (C) Developer has completed construction of such phase (except for final grading adjustments and other minor punch list items), (D) such phase has been successfully tested, and it can be used for its intended purpose, (E) the construction is in accordance with the approved plans and specifications, and (F) such phase is currently necessary for AAW to provide Water Services and Wastewater Services. AAW will not unreasonably withhold or delay Operational Acceptance of the Facilities or any phase thereof. AAW will notify Developer of Operational Acceptance within 15 days after satisfaction of the foregoing requirements with respect to that phase. Operational Acceptance will be evidenced by written notice by AAW to Developer.

#### 5.4 Commencement of Service.

a. Timing of Construction and Service. Developer agrees that the completion of its work on the On-Site Subdivision Facilities will be timed by Developer so as to enable AAW to provide Water Services and Wastewater Services when such services are

requested by Developer. Developer will not request AAW to serve the Project area nor will AAW have any obligation to provide Water Services or Wastewater Services prior to completion and Operational Acceptance of any portion of the Phase I Regional Water Facilities, the Phase I Regional Wastewater Collection Facilities, the Phase IIA Regional Water Facilities, the Phase IV Regional Water Facilities, or the Phase IV Regional Wastewater Collection Facilities that are required by AAW to provide Water Services and Wastewater Services.

b. Commencement of Project. AAW will have the right (but not the obligation) to terminate this Agreement by so notifying Developer if (i) the Webb Agreement is terminated, or (ii) the Portola Agreement is terminated, or (iii) Developer has not substantially commenced actual construction of residences in the Project within 48 months of Commission approval for the extensions of the certificates of convenience and necessity of AAW (including the transfer of the Developer CC&Ns) as contemplated by Article II (regardless of any conditions placed on such approval). For purposes of this subsection (b), "substantially commenced" means completion of construction of the foundations of at least 50 homes. If this Agreement is terminated pursuant to clause (i) or (ii) of this paragraph (b), AAW will apply to the Commission for transfer of the Developer CC&Ns to RC Water and RC Sewer. If this Agreement is terminated pursuant to clause (iii) of this paragraph (b), AAW will have no obligation to apply to the Commission for modification or cancellation of the extensions of the certificates of convenience and necessity of AAW or for retransfer of the Developer CC&Ns to RC Water and RC Sewer.

#### 5.5 Title.

Each phase of the Developer Constructed Facilities will become the property of AAW upon issuance by AAW of an Operational Acceptance for that phase. Such transfer of the

Facilities to AAW occurs automatically by operation of this Section, without the requirement of any written documents of transfer to AAW. In addition to any documentation described in Section 4.2(c), Developer will execute promptly such documents as AAW may reasonably request to evidence (a) transfer of possession and title of the Facilities or any phase thereof to AAW, and (b) the holding by AAW of good and merchantable title to all of the Facilities or any phase thereof, free and clear of all mechanics and similar liens and other encumbrances.

#### 5.6 Warranty.

For 12 months after Operational Acceptance of any phase of the Developer Constructed Facilities (the "Developer Warranty Period"), Developer warrants that all construction, including materials and workmanship of such phase is substantially in accordance with the construction plans and specifications, is properly installed and capable of being fully operational, and is free of material defects. If AAW believes that any of the foregoing warranties have been violated, AAW will provide written notice to Developer within the Developer Warranty Period specifying the breach and the action AAW believes is necessary to correct such breach. Upon the receipt of such written notice, Developer will have a period of 30 days to commence correction of such breach. AAW will allow Developer and its agents, employees, contractors, engineers, and subcontractors access to the Facilities in connection with any repairs necessary as a result of such breach. AAW will at all times cooperate with Developer and its agents, employees, contractors, engineers, and subcontractors in making such repairs and corrections. As long as Developer completes the repairs and corrections within 60 days after the receipt of AAW's notice (or such longer period as may be determined by Developer and AAW to be reasonably necessary to effect the repair and correction), Developer will not have additional liability to AAW or any other person as the result of such breach. If Developer does not cause

the breach to be corrected within that period, then AAW may cause the repair or correction, in which case Developer will reimburse AAW for its reasonable costs and expenses in connection with the repair and correction.

5.7 Repairs.

Developer will repair or cause to be repaired promptly, at no cost to AAW, any damage to the Developer Constructed Facilities caused by Developer, its subcontractors, or an Affiliate of Developer, whether or not the cause is related to construction to be performed by Developer under this Agreement.

5.8 Indemnification.

a. Construction Work.

Developer will indemnify, save and hold AAW harmless from and against all claims that may be based upon any injury or alleged injury or death to any person or damage to property that may occur, or that may be alleged to have occurred, in the course of the performance of the construction under this Agreement by Developer or by any of its subcontractors or Affiliates, whether such claim is made by any employee of Developer or by a third person, and whether or not it is claimed that the alleged injury, death or damage was caused through a negligent act or omission of Developer, or of any of its subcontractors. This indemnity does not apply to claims arising solely from negligent or intentional acts of any of AAW, its agents, servants, employees or Affiliates. In furtherance of (and without limiting) the foregoing, Developer will, at its own cost and expense, pay all costs and other expenses (including reasonable attorneys' fees) of AAW arising from any claim, or incurred in connection therewith. In furtherance of (and without limiting) the foregoing, if any judgment is rendered against AAW



in any such claim, Developer will, at its own cost and expense, satisfy and discharge the judgment.

b. Notice and Opportunity to Defend.

i. Notice, Etc. If any person entitled to indemnification under this Section (an "Indemnatee") receives notice of any third-party claim or commencement of any third-party action or proceeding (an "Asserted Liability") with respect to which Developer (an "Indemnitor") is obligated to provide indemnification pursuant to this Section, the Indemnatee will promptly give the Indemnitor notice thereof. The Indemnatee's failure so to notify the Indemnitor will not cause the Indemnatee to lose its right to indemnification under this Section, except to the extent that such failure materially prejudices the Indemnitor's ability to defend against an Asserted Liability that such Indemnitor has the right to defend against hereunder. Such notice will describe the Asserted Liability in reasonable detail and, if practicable, will indicate the amount (which may be estimated) of the losses that have been or may be asserted by the Indemnatee. Except as provided in Section 5.8(b)(ii), the Indemnitor will have the right, but not the obligation, to defend against an Asserted Liability on behalf of the Indemnatee utilizing counsel reasonably acceptable to the Indemnatee, provided that (A) the Indemnitor notifies the Indemnatee in writing within a reasonable time after the Indemnatee has given notice of the Asserted Liability that the Indemnitor will indemnify the Indemnatee from and against all losses the Indemnatee may suffer resulting from, arising out of, relating to, in the nature of, or caused by the Asserted Liability, (B) the Indemnitor provides the Indemnatee with evidence reasonably acceptable to the Indemnatee that the Indemnitor will have the financial resources to defend against the Asserted Liability and fulfill its indemnification obligations under this Agreement, (C) the Asserted Liability involves only monetary damages and does not seek an injunction or

equitable relief or involve the possibility of criminal penalties, and (D) the Indemnitor conducts the defense of the Asserted Liability actively and diligently.

ii. Conflicts. Notwithstanding the foregoing, Indemnitor will not have the right to assume the defense against an Asserted Liability if the Indemnatee reasonably objects to such assumption on the grounds that counsel for such Indemnitor cannot represent both the Indemnatee and the Indemnitor because such representation would be reasonably likely to result in a conflict of interest or because there may be defenses available to the Indemnatee that are not available to such Indemnitor.

iii. Conduct of Defense. As long as the Indemnitor is conducting the defense of the Asserted Liability in accordance with Section 5.8 (b)(i), (A) the Indemnatee may retain separate co-counsel at its sole cost and expense and participate in the defense of the Asserted Liability, (B) the Indemnatee will not consent to the entry of any judgment or enter into any settlement with respect to the Asserted Liability without the prior written consent of the Indemnitor (which will not be unreasonably delayed, conditioned, or withheld), and (C) the Indemnitor will not consent to the entry of any judgment or enter into any settlement with respect to the Asserted Liability without the prior written consent of the Indemnatee (which will not be unreasonably delayed, conditioned or withheld).

iv. Failure to Conduct Defense. In the event or to the extent that any of the conditions set forth in Section 5.8 (b)(i) is not satisfied or ceases to be satisfied, or if the Indemnitor elects not to assume the defense of an Asserted Liability, or if the Indemnitor has no right to assume the defense of an Asserted Liability under Section 5.8(b)(ii), (A) the Indemnatee may defend against, and consent to the entry of any judgment or enter into any settlement with respect to, the Asserted Liability and any matter it may deem appropriate in its sole discretion

and the Indemnitee need not consult with, or obtain any consent from, the Indemnitor in connection therewith (but will keep the Indemnitor reasonably informed regarding the progress and anticipated cost thereof), (B) the Indemnitor will reimburse the Indemnitee promptly and periodically for the cost of defending against the Asserted Liability (including investigative costs, reasonable attorneys' fees and other expenses), (C) the Indemnitor will remain responsible for any adverse consequences the Indemnitee may suffer resulting from, arising out of, relating to, in the nature of, or caused by the Asserted Liability to the fullest extent provided in this Agreement, and (D) the Indemnitor will be deemed to have waived any claim that its indemnification obligation should be reduced because of the manner in which the counsel for the Indemnitee handled the Asserted Liability.

5.9 Insurance.

Developer will furnish AAW with evidence of insurance coverage as set forth on Exhibit F. Such evidence will be furnished prior to the commencement of construction by Developer.

5.10 Clean-Up.

Upon completion of work, Developer will remove all equipment belonging to it or used under its direction or by its subcontractors, and will dispose of all unused materials, rubbish, surplus excavated materials and debris. Developer will repair all roads, sidewalks and other public or private rights-of-way damaged by its work. The repairs will be made in accordance with the requirements of governmental bodies or private associations having jurisdiction over the repairs.

5.11 Developer Invoice and Documentation.

a. Invoice and Documentation by Developer. For each phase of Developer Constructed Facilities construction by Developer, Developer will submit to AAW, within 60 days of receiving Operational Acceptance of the Facilities in that phase all of the following:

i. Developer's own invoice (in the case of the Advanced Facilities), and documentation (in the case of the Contributed Facilities), covering:

A. the costs of engineering and construction performed hereunder or otherwise expended by or on behalf of Developer in accordance with Sections 5.1 and 5.2 pertaining to the accepted Facilities, and

B. costs of land, real property and easements allowed under Sections 4.2 and 4.3, and

ii. Supporting data consisting of:

A. all bills, statements, invoices and all other evidences of expense received by Developer from subcontractors, suppliers and others for all engineering and other services, materials installed, construction performed, equipment provided and materials purchased pursuant to this Agreement relating to the Facilities in question, and

B. all reasonable additional supporting data in Developer's possession that AAW may request relating to the Facilities in question.

b. Costs of Advanced Facilities. In the case of Advanced Facilities, the total costs invoiced by Developer and determined by AAW to be costs that are described in clauses (i) and (ii) above will constitute Developer's Advances subject to refund pursuant to Section 4.6.

c. Costs of Contributed Facilities. In the case of Contributed Facilities, the total costs documented by Developer, and determined by AAW to be costs that are described in

clauses (i) and (ii) of subsection (a) above will constitute Reimbursable Costs subject to partial reimbursement pursuant to Section 4.7, with the residual constituting Developer's Contributions subject to offset pursuant to Section 4.11.

5.12 As-Built Plans.

With respect to any phase of a Developer Constructed Facility as to which Operational Acceptance has occurred, Developer will (within 60 days after Operational Acceptance) submit to AAW as-built plans for all Facilities constructed by Developer. These plans will be in full-size 4-mil mylar format together with two full size blue-line or blackline copies, unless Developer and AAW mutually agree to electronic data format, half-size bond copies and/or other media. All as-built plans will (a) be certified as to correctness by an engineer registered in the State of Arizona, (b) show the location, sizes, and construction details for all Facilities, and (c) provide all other information required by the Commission and all other regulatory authorities.

5.13 Lien Waivers.

In connection with (and accompanying) each Developer's invoice or documentation, as the case may be, for a phase of the Developer Constructed Facilities submitted under Section 5.11, Developer will provide to AAW, for all amounts invoiced or documented, lien waivers from each of the contractors, subcontractors and suppliers of materials and labor under this Agreement whose services or materials are included in the invoice or the documentation (and releases of any mechanics' lien claims).

5.14 Final Acceptance.

For each phase of the Developer Constructed Facilities for which Operational Acceptance has occurred, AAW will issue its written final acceptance ("Final Acceptance") as to

that phase when (a) Developer has made all submittals required in accordance with Sections 5.11, 5.12, 5.13 and this Section, (b) Developer has completed construction of such Facilities including final grading adjustments, roadways, sidewalks, and landscaping under which the Facilities are installed, and (c) said submittals are in accordance with AAW's standards and said construction is in accordance with the approved plans and specifications. AAW will not unreasonably withhold or delay Final Acceptance.

5.15 Residential and Commercial On-Site Development by Others.

Developer advises AAW and AAW acknowledges that Developer may sell undeveloped parcels within the Project to other parties for development into subdivisions or commercial parcels. Should additional on-site facilities be required to provide water or wastewater service to any such subdivision or commercial parcel, before AAW is required to provide Water Services and Wastewater Services to any such subdivision or commercial parcel, the Builder will be required to enter into line extension agreements with AAW (in accordance with AAW's then current policies, tariffs and rules and regulations approved by the Commission) providing for construction of the portion of the On-Site Subdivision Facilities serving the specific subdivision or commercial property.

ARTICLE VI  
AAW SERVICES

6.1 Water Services.

AAW will provide Water Services within the Project in accordance with rates and tariffs approved by the Commission and, subject to the approved Developer Master Plan, in sufficient quantities to meet the demand for Water Services generated by the Project.

6.2 Wastewater Services.

AAW will provide Wastewater Services within the Project in accordance with rates and tariffs approved by the Commission and, subject to the approved Developer Master Plan, in sufficient quantities to meet the demand for Wastewater Services generated by the Project.

6.3 Approvals Required

Before AAW is required to provide Water Services and Wastewater Services to any user, the Facilities from which the service is to be provided (including all of the Phase I Regional Water Facilities, the Phase I Regional Wastewater Collection Facilities, the Phase IIA Regional Water Facilities, and the Developer Constructed Facilities) must have been completed and granted Operational Acceptance by AAW.

6.4 Construction of Future Facilities

AAW will construct or cause to be constructed all Regional Wastewater Treatment Facilities, Subsequent Regional Wastewater Collection Facilities and Subsequent Regional Water Facilities required to provide Water Services and Wastewater Services to the Project. AAW agrees that the completion of work on the Regional Wastewater Treatment Facilities, Subsequent Regional Wastewater Collection Facilities and Subsequent Regional Water

Facilities will be timed so as to enable AAW to provide Water Services and Wastewater Services when those services are requested by Developer.

6.5 Assured Water Supply.

As of the date of this Agreement, AAW has not been designated as having an assured water supply pursuant to A.R.S. § 45-576(D). Until such time as AAW has been so designated, if ever, Developer must seek and obtain Certificates of Assured Water Supply in accordance with A.R.S. § 45-576(A) as a prerequisite for subdividing and developing the property. AAW will cooperate with Developer in connection with applications by Developer for assured water supply including (a) executing Notices of Intent to Serve required by the Arizona Department of Water Resources (the "ADWR") in connection with such applications, and (b) entering into such contracts and recording such declarations as may reasonably be required by the Central Arizona Groundwater Replenishment District pursuant to A.R.S. §§ 48-3774(C) and 48-3772(B)(4) which are required for the Project to qualify as "member land" under § 48-3774. AAW will also provide a "will serve" letter to Maricopa County, Arizona, or other governmental agency which requires Developer to provide such a letter.

6.6 Water Rights.

AAW will use its Type 2 groundwater right (No. 58-108229.0006) for purposes of establishing any service area right required by ADWR so as to enable AAW to provide Water Services as contemplated by this Article.



ARTICLE VII  
CONSTRUCTION WATER

7.1 Construction Water.

a. Usage. All construction water provided by AAW is to be metered and charged to Developer or other users. If approved by AAW, water required for construction of Developer Constructed Facilities may be unmetered. If the water is unmetered, AAW will estimate the amount of unmetered water used and charge Developer or other user for the water. Water will not be withdrawn from any hydrant or other facility of AAW without the prior consent of AAW. Notwithstanding the foregoing, Developer may obtain construction water from its own wells and water supply or from MWD.

b. Payment. Developer will pay AAW for potable water and non-potable water provided by AAW to Developer and used for construction purposes in accordance with rates and tariffs approved by the Commission.

7.2 Construction Meters.

For construction water purposes, on reasonable request of Developer, temporary meters for construction uses will be at no charge to Developer other than the actual costs of installation.

ARTICLE VIII  
REPRESENTATIVES

8.1 Authorized Representatives.

a. Authority to Act.

Each Party will designate at least one individual officer or employee who will be its representative ("Representative"). The Representative is authorized to act on behalf of the Party in performing the provisions of this Agreement. A Party may designate more than one Representative. The designation may be changed from time to time. The designation must be made in a writing.

b. No Release.

Each Party is responsible for the acts or omissions of its Representative(s). The designation of a Representative by a Party does not release the Party from responsibility for performance of its obligations under this Agreement.

## ARTICLE IX

### DISPUTE RESOLUTION

#### 9.1 Scope of Article.

This Article governs the resolution of all disputes that arise under this Agreement.

#### 9.2 Good Faith Negotiations

A Party that believes a dispute exists under this Agreement will first refer the dispute to the Representatives for resolution. The Representatives of each Party will personally meet and attempt in good faith to resolve the dispute. If the Representatives cannot resolve the dispute within seven days, the matter will be referred to senior management of Developer and AAW for resolution. If these persons are unable to resolve the dispute within seven days thereafter, a Party that still believes a dispute requires resolution may avail itself of the provisions of Section 9.3.

#### 9.3 Mediation and Arbitration.

If a Party still believes a dispute requires resolution after following the procedures of Section 9.2, that Party will first give a detailed written notice of dispute to the other Parties setting forth the nature of the dispute. The Parties will then, before resorting to arbitration, first try in good faith to settle the dispute by mediation administered by the American Arbitration Association ("AAA") under its Construction Industry Arbitration Rules or Commercial Arbitration Rules, as appropriate. The mediator must have substantial experience with the water utility industry and with real estate development.

Any dispute not resolved by mediation within 30 days after the initial meeting of the Representatives will, upon request of any Party, be submitted for and settled by binding arbitration administered by the AAA before a single arbitrator. If the controversy or claim relates

to construction, the arbitration will be conducted in accordance with the AAA's Construction Industry Arbitration Rules; otherwise, the AAA's Commercial Arbitration Rules will apply. In any case the arbitrator must have substantial experience with the water utility industry and with real estate development. The arbitrator has no power to amend or modify this Agreement. Judgment on the award rendered by the arbitrator may be entered in any court with jurisdiction.

#### 9.4 Other Remedies.

The preceding paragraphs of this Article are intended to set forth the primary procedure to resolve all disputes under this Agreement. It is expected that all disputes that would traditionally be resolvable by a court of law would be resolvable under this procedure. However, the Parties recognize that certain business relationships could give rise to the need for one or more of the Parties to seek equitable remedies from a court that were traditionally available from an equity court, such as emergency, provisional or summary relief, and injunctive relief. Immediately following the issuance of any such equitable relief, the Parties will stay any further judicial proceeding pending mediation or arbitration of all underlying claims between the Parties.

The Parties also recognize that the Commission has primary jurisdiction over certain issues that may arise between and among the Parties that relate to the provision of public utility service. Accordingly, this Article is not intended to prohibit any Party from bringing any such issues to the Commission for resolution or from taking any position at the Commission that would not be inconsistent with or barred by this Agreement or by collateral estoppel, res judicata or other issue or fact preclusive doctrines.

Within 30 days after the date of the arbitration award, a Party may appeal to the U.S. District Court for the District of Arizona if such court has jurisdiction, and otherwise to any

state court of record in Arizona having jurisdiction, to vacate and remand, or modify or correct the arbitration award for any of the grounds specified in the Federal Arbitration Act.

9.5 Confidentiality.

The mediation and arbitration proceedings will be conducted in secrecy. Except as otherwise agreed by the Parties in writing, (a) the fact of the pending mediation or arbitration will not be disclosed or confirmed by the Parties, the mediator or the arbitrator to any person who is not a party to, or called to testify at, the proceedings until the mediation has been terminated or the arbitration award has been made, (b) the proceedings will not be recorded or transcribed in any manner, and (c) all documents, testimony and records (other than the contract documents out of which the dispute arises) will be received, heard and maintained by the mediator and the arbitrator in secrecy, available for inspection only by the Parties, their attorneys and by experts who will agree, in advance and in writing, to receive all such information in secrecy. The secret information will not be described in any mediator communication or in the arbitration award in such manner as to be commercially useful. Notwithstanding the foregoing, this Section is not intended to prohibit any Party from making disclosures regarding the mediation and arbitration proceedings to a court to the extent (and only to the extent) necessary in connection with an appeal permitted by Section 9.4, provided the Party requests the court to preserve the secrecy of the mediation and arbitration proceedings and the information pertaining thereto.

ARTICLE X  
GENERAL PROVISIONS

10.1 Termination of Agreement.

a. Conditions Subsequent. Notwithstanding anything to the contrary contained herein, the Parties' rights and obligations under this Agreement (including Developer's obligation to construct the Developer Constructed Facilities and AAW's obligation to provide Water Services and Wastewater Services under this Agreement) are conditioned on (i) obtaining approval of the Commission for the transfers of the Developer CC&Ns to AAW and extensions of the certificates of convenience and necessity of AAW and (if and to the extent the Commission asserts jurisdiction over this Agreement) this Agreement as contemplated by Article II, (ii) obtaining the transfer of the Developer Franchises to AAW as contemplated by Article II (if and to the extent AAW deems such transfer to be necessary or appropriate), and (iii) obtaining the other Authorizations as contemplated by Article II.

b. Failure of Condition. If the conditions referenced in Section 10.1(a) are not satisfied on or before September 30, 2005 (or such later date as Developer and AAW may mutually agree in writing), then this Agreement thereafter may be terminated (and will be of no further force or effect) on a Party's giving notice to the other Party on or before December 31, 2005, of such Party's election so to terminate. If this Agreement is terminated pursuant to this Section, and if Developer has reimbursed AAW for all costs paid or incurred by AAW in connection with this Agreement (including the costs of obtaining the Authorizations), Developer may request the withdrawal of the Project area from the certificates of convenience and necessity of AAW, and AAW will not object to such request.

#### 10.2 Phased Development.

Development in the Project is intended to be performed in mutually agreeable units or phases as set forth in the Developer Master Plan approved by AAW. Developer and AAW will schedule engineering and construction of Developer Constructed Facilities to coincide with those units or phases. This Agreement applies to each unit or phase.

#### 10.3 Force Majeure.

No Party will be liable to another Party for failure, default or delay in performing any of its obligations under this Agreement, other than for the payment of money obligations specified in this Agreement, if such failure, default or delay is the result of any cause or event not within the control of the Party having the obligation and which, by the exercise or reasonable diligence, such Party is unable to prevent or mitigate (such a cause or event being "Force Majeure"). Force Majeure does not include changes in local, state, national or international general economic conditions. The Party's failure, default or delay in performance will be excused only for as long as such cause or event is present. If a Force Majeure occurs, the Parties will proceed with diligence to do what is reasonable and necessary so that each Party may perform its obligations under this Agreement. AAW and Developer will not in any event incur any liability to one another or to any other Party for consequential or any other damages which may result from delays in initiating service, or from interruptions in or other malfunctions of service, based upon the foregoing circumstances.

#### 10.4 Assignment.

This Agreement may be assigned by a Party to a parent corporation of which it is a wholly-owned subsidiary, or to a wholly-owned subsidiary of the parent, or to a wholly-owned subsidiary of a wholly-owned subsidiary of the parent or another entity wherein Developer or

AAW has a controlling interest, provided that the Party making such assignment will be a guarantor of the full and faithful performance of this Agreement by the assignee and executes documents to that effect as may reasonably be required by counsel for the other Parties. In addition, if Developer delivers to AAW a duly completed notice in the form attached as Exhibit I not less than thirty (30) days prior to the proposed assignment, Developer may assign to a Builder the right of Developer to receive refunds under Section 4.6 with respect to the lots identified in such notice, but such refunds (regardless of whether payable to Developer or to a Builder as an assignee) will remain subject to AAW's right of offset for amounts owed to AAW under this Agreement (including the right of offset described in Section 4.12(c)(ii)); Developer will deliver to AAW a copy of such assignment promptly after the assignment is executed. This Agreement will not be otherwise assignable by a Party without the consent in advance of the other Parties, which consent will not be unreasonably withheld or delayed. For purposes of this Section, "assignment" includes (a) any transfer or delegation by a Party of any right or obligation of such Party arising under this Agreement, including any collateral assignment or other encumbrance of an interest in this Agreement, (b) any sale of substantially all of the assets of a Party, and (c) any merger of a Party with another person.

#### 10.5 Notices.

Except as otherwise specified in this Agreement, any notice, demand, request or other communication required or authorized by this Agreement to be given in writing to a Party must be either (a) personally delivered, (b) mailed by registered or certified mail (return receipt requested), postage prepaid, (c) sent by overnight express carrier, or (d) sent by telecopy or electronic mail, in each case at the following address:



To the Developer addressed as follows:

Rancho Cabrillo Development, L.L.C.  
2151 East Broadway Road, Suite 210  
Tempe, AZ 85282  
Attention: Steve Robson

or to such other address as Developer may advise AAW in writing, and to AAW at:

Arizona-American Water Company  
Attn: Engineering Director  
19820 North 7<sup>th</sup> Street  
Phoenix, Arizona 85024

With a copy to:

Gallagher & Kennedy, P.A.  
Attn: Terence W. Thompson, Esq.  
2575 East Camelback Road  
Phoenix, Arizona 85016

or to such other address as AAW may advise Developer in writing. The designation of such person and/or address may be changed at any time by either Party upon written notice given under this Section. All notices, demands, requests or other communications sent pursuant to this Section will be deemed received (i) if personally delivered, on the business day of delivery, (ii) if sent by telecopy or electronic mail before noon (12:00 p.m.) Phoenix time, on the day sent if a business day or, if such day is not a business day or if sent after noon (12:00 p.m.) Phoenix time, on the next business day, (iii) if sent by overnight express carrier, on the next business day immediately following the day sent, or (iv) if sent by registered or certified mail, on the earlier of the third business day after the day sent or when actually received. Any notice by telecopy or electronic mail will be followed by delivery on the next business day by overnight express carrier or by hand.

10.6 Entire Agreement; Attachments.

a. Entire Agreement.

This Agreement (including all exhibits and any other attachments) constitutes the entire understanding between the Parties regarding the subject matter of this Agreement, supersedes any and all previous understandings between the Parties (including any letter of intent) regarding the subject matter of this Agreement, and binds and inures to the benefit of the Parties, their successors and assigns. None of the Parties has entered into this Agreement in reliance upon any oral or written representation or information provided by any other Party.

b. Attachments.

Attachments not complete at the effective date of this Agreement will be added as they are completed by written amendment, signed by each Party. Each attachment that is completed or modified by a subsequent amendment will note on its face the date and number of that amendment.

10.7 Further Assurances.

If a Party determines in its reasonable discretion that any further instruments, assurances or other things are necessary or desirable to carry out the terms of this Agreement, the other Parties will execute and deliver all instruments and assurances and do all things reasonably necessary or desirable to carry out the terms of this Agreement, including using their best efforts to negotiate and enter into any agreements that may become necessary and appropriate.

10.8 No Waiver.

The failure of a Party to enforce at any time any of the provisions of this Agreement (or to require at any time performance by the other Party of any of its provisions) is

not to be construed as a waiver of such provisions and does not in any way affect the validity of this Agreement or the right of such Party to enforce any provision.

10.9 Modification or Waiver.

A modification or waiver of all or any part of this Agreement is not valid unless it is reduced to a written agreement.

10.10 Governing Law and Interpretation.

The laws of the State of Arizona govern the interpretation and performance of this Agreement.

10.11 Counterparts.

This Agreement may be executed in several counterparts.

10.12 No Third Party Beneficiaries.

Nothing in this Agreement, express or implied, is intended to confer any rights or remedies under or by reason of this Agreement on any persons other than the Parties. Nothing in this Agreement is intended to relieve or discharge the obligation or liability of any third person to any Party. This Agreement does not create any duty, liability or standard of care to any person not a Party.

10.13 Confidential and Proprietary Information.

Any information provided by one Party to another Party that is conspicuously labeled "CONFIDENTIAL AND PROPRIETARY," or any matter derived from such information, may not be disclosed by the receiving Party to any third party, except: (i) with the providing Party's consent, not to be unreasonably withheld, (ii) pursuant to a subpoena or other legal process or pursuant to a court order or a regulatory authority order obtained after the receiving Party has used reasonable efforts to obtain an order of the court protecting the

confidentiality of the information and/or restricting its dissemination, (iii) if such dissemination is necessary after the occurrence of a default under this Agreement by the Party supplying such information in connection with the enforcement of the rights of the non-defaulting Party, (iv) if the information provided by one Party to another Party is otherwise publicly available, or (v) the disclosure is made only to a person which has become an assignee of a Party in accordance with Section 10.4. If a Party that receives confidential information becomes aware of any attempt by any third party or court to obtain any confidential information, the Party will, as soon as practicable thereafter, notify the Party that labeled the information as confidential of the attempt to obtain the information. Upon request of the providing Party, the information must be promptly returned.

10.14 Review of Facilities.

Review, audit or inspection by AAW of a Facility constructed by Developer or of a document drafted by Developer does not constitute an endorsement or warranty of any of them, or a waiver of any right under this Agreement.

10.15 Computation of Time.

In computing any period of time prescribed or allowed under this Agreement, the day of the act, event or default from which the designated period of time begins to run is included. Weekend and holidays are also included.

10.16 No Party the Drafter.

This Agreement is the product of negotiation between the Developer and AAW. No Party is deemed the drafter of this Agreement.

10.17 Interest on Late Payments.

Except as otherwise provided herein, all payments under this Agreement that are not paid within 30 days of the due date of the payment will accrue interest thereon at the Prime Rate plus two percent (2%) per annum, compounded monthly from the due date of the payment until the amount is paid.

10.18 Audit Rights.

Developer and AAW may, from time to time at the cost of the auditing party and upon reasonable advance notice, audit the books and records of the other Party and its Affiliates with respect to information arising out of this Agreement.

10.19 Time Is of the Essence.


Time is of the essence of this Agreement.

[SIGNATURES APPEAR ON THE FOLLOWING PAGE.]

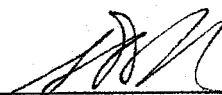
IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be entered  
into on the day and year first above written.

RANCHO CABRILLO DEVELOPMENT,  
L.L.C., an Arizona limited liability company

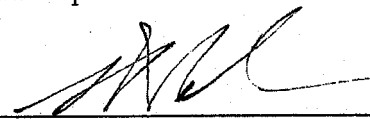
By: SCOTT MANAGEMENT COMPANY,  
an Arizona corporation, Manager

By:   
Steven S. Robson, President

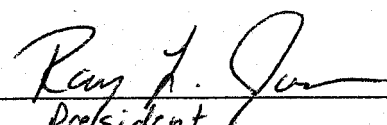
RANCHO CABRILLO WATER COMPANY,  
an Arizona corporation

By:   
Steven S. Robson, President

RANCHO CABRILLO SEWER COMPANY, an  
Arizona corporation

By:   
Steven S. Robson, President

ARIZONA-AMERICAN WATER COMPANY,  
an Arizona corporation

By:   
Its: President

**EXHIBIT A**  
**DEFINITIONS**

"AAA" means the American Arbitration Association.

"AAW" means Arizona-American Water Company, an Arizona corporation.

"AAW Master Plan" has the meaning set forth in Section 3.1(c)

"ADWR" means the Arizona Department of Water Resources.

"Adjacent Lands" means the lands, other than the Project, adjacent to or in the vicinity of the Project that are included in the planning area of the AAW Master Plan.

"Advanced Facilities" has the meaning set forth in Section 4.1.

"Affiliate" means any person (other than an individual) which directly or indirectly controls, is controlled by, or is under common control with, another person. For purposes of this definition, "control" means possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person, whether by contract or otherwise.

"Agreement" means this Agreement dated as of January 23, 2004, among Developer, RC Water, RC Sewer and AAW, including all exhibits and any other attachments, as amended from time to time.

"Application" has the meaning set forth in Section 2.4.

"Asserted Liability" has the meaning set forth in Section 5.8(b)(i).

"assignment" has the meaning set forth in Section 10.4.

"Authorizations" means certificates of convenience and necessity, permits, licenses, operating agreements, franchises, and similar authorizations obtained from regulatory agencies and other governmental entities and required by law to provide Wastewater Services and Water

Services and to operate the Developer Constructed Facilities as contemplated in this Agreement, excluding the Developer CC&Ns and the Developer Franchises.

"Builder" means any person (other than Developer) which constructs residential homes, commercial properties, schools, parks, churches or other improvements within the Project that are connected to any of the Facilities.

"claims" includes claims, actions, lawsuits, proceedings, investigations, penalties, fines, losses, liabilities, judgments, damages, costs and expenses (including reasonable attorneys' fees and court costs), and any items of a nature similar to any of the foregoing.

"Commission" means the Arizona Corporation Commission.

"Contributed Facilities" has the meaning set forth in Section 4.1.

"Developer" means Rancho Cabrillo Development, L.L.C., an Arizona limited liability company.

"Developer's Advances" has the meaning set forth in Section 4.5.

"Developer CC&Ns" means the certificates of convenience and necessity issued by the Commission to: (a) RC Water on April 24, 2001 under Docket No. W-03898A-00-0474, Decision No. 63592 regarding the provision of public utility water service to the Project; and (b) RC Sewer on May 4, 2001 under Docket No. SW-03898A-00789, Decision No. 63658 regarding the provision of public utility sewer service to the Project.

"Developer Constructed Facilities" or "Facilities" means any facility or facilities constructed or required to be constructed pursuant to Section 4.1.

"Developer's Contributions" has the meaning set forth in Section 4.8.



"Developer Franchises" means the franchises issued by Maricopa County and held by: (a) RC Water regarding the provision of public utility water service to the Project; and (b) RC Sewer regarding the provision of public utility sewer service to the Project.

"Developer Master Plan" has the meaning set forth in Section 3.1(a).

"Developer Parties" means Developer, RC Water and RC Sewer.

"Developer Warranty Period" has the meaning set forth in Section 5.6.

"ERU" means an Equivalent Residential Unit, which is that portion of a residential or commercial unit within the Project area receiving Water Services or Wastewater Services from AAW. An ERU will be counted at the time of first receipt of such service, notwithstanding any subsequent cessation and resumption of such service. ERUs for various facilities are determined under the following schedule:

<u>Type of Improvement</u>	<u>Associated ERU</u>
Single Family Homes	1.00
Multifamily Units	0.50
Commercial Units (per acre)	4.00
Resorts (per room)	0.50
Parks acreage, Golf Courses acreage, and Right-of-way Landscaping acreage	0.00

For purposes of this definition, "single family home" means a detached residential house or dwelling to be resided in by a single family and used solely for residential purposes and not for commercial, nonprofit or other purposes (and expressly excludes duplexes or other structures having one or more common walls). For purposes of this definition, "multifamily unit" means an

apartment, condominium, townhouse or other unit within a residential dwelling (other than a single family home) to be resided in by a single family and used solely for residential purposes and not for commercial, nonprofit or other purposes. For purposes of this definition, "commercial units" includes general commercial facilities, schools, and community facilities (including recreation centers, clubhouses and similar structures, but excluding parks acreage, golf courses acreage and right-of-way landscaping acreage).

"Escrow Agent" means J.P. Morgan Trust Company, National Association.

"Escrow Agreement" means the Escrow Agreement of concurrent date with this Agreement among Developer, AAW and Escrow Agent, in the form attached as Exhibit H.

"Final Acceptance" has the meaning set forth in Section 5.14.

"Force Majeure" has the meaning set forth in Section 10.3.

"includes" and "including" denote a partial definition, by way of illustration and not by way of limitation.

"Indemnatee" has the meaning set forth in Section 5.8(b)(i).

"Indemnitor" has the meaning set forth in Section 5.8(b)(i).

"MWD" means Maricopa County Municipal Water Conservation District No. 1, a municipal corporation and a political subdivision of the State of Arizona.

"On-Site Subdivision Facilities" means all water distribution, water transmission, and wastewater collection facilities located within the Project boundaries, excepting Regional Water Facilities, required for AAW to provide Water Services or Wastewater Services to individual residential homes, commercial properties, schools, parks, churches or other improvements within the Project.

"Operational Acceptance" has the meaning set forth in Section 5.3.

"Party" and "Parties" means the Developer and AAW.

"person" means an individual or an entity. For purposes of this definition, "entity" means a corporation, association, company, business trust, trust, estate, partnership, joint venture, two or more persons having a joint or common economic interest, any person other than an individual, and any governmental body.

"Phase I Regional Wastewater Collection Facilities" means that portion of the Regional Wastewater Collection Facilities needed to provide Wastewater Services to the Project and the Adjacent Lands as detailed in the AAW Master Plan to be prepared by AAW in accordance with Section 3.1(c) and as identified on Exhibit G.

"Phase I Regional Water Facilities" means that portion of the Regional Water Facilities needed to provide Water Services to the Project and the Adjacent Lands as detailed in the AAW Master Plan to be prepared by AAW in accordance with Section 3.1(c) and as identified on Exhibit G.

"Phase II Regional Wastewater Collection Facilities" means that portion of the Regional Wastewater Collection Facilities needed to provide Wastewater Services to the Adjacent Lands as detailed in the AAW Master Plan to be prepared by AAW in accordance with Section 3.1(c) and as identified on Exhibit G.

"Phase II Regional Water Facilities" means the Phase IIA Regional Water Facilities, the Phase IIB Regional Water Facilities, and the Phase IIC Regional Water Facilities.

"Phase IIA Regional Water Facilities" means that portion of the Phase II Regional Water Facilities needed to provide Water Services to the Project and the Adjacent Lands as detailed in the AAW Master Plan to be prepared by AAW in accordance with Section 3.1(c) and as identified on Exhibit G.

"Phase IIB Regional Water Facilities" means that portion of the Phase II Regional Water Facilities needed to provide Water Services to the Adjacent Lands as detailed in the AAW Master Plan to be prepared by AAW in accordance with Section 3.1(c) and as identified on Exhibit G.

"Phase IIC Regional Water Facilities" means that portion of the Phase II Regional Water Facilities needed to provide Water Services to the Adjacent Lands as detailed in the AAW Master Plan to be prepared by AAW in accordance with Section 3.1(c) and as identified on Exhibit G.

"Phase IV Regional Wastewater Collection Facilities" means the Phase IVA Regional Wastewater Collection Facilities, the Phase IVB Regional Wastewater Collection Facilities, and the Phase IVC Regional Wastewater Collection Facilities.

"Phase IVA Regional Wastewater Collection Facilities" means that portion of the Phase IV Regional Wastewater Collection Facilities needed to provide Wastewater Services to the Project and the Adjacent Lands as detailed in the AAW Master Plan to be prepared by AAW in accordance with Section 3.1(c) and as identified on Exhibit G.

"Phase IVB Regional Wastewater Collection Facilities" means that portion of the Phase IV Regional Wastewater Collection Facilities needed to provide Wastewater Services to the Project and the Adjacent Lands as detailed in the AAW Master Plan to be prepared by AAW in accordance with Section 3.1(c) and as identified on Exhibit G.

"Phase IVC Regional Wastewater Collection Facilities" means that portion of the Phase IV Regional Wastewater Collection Facilities needed to provide Wastewater Services to the Project and the Adjacent Lands as detailed in the AAW Master Plan to be prepared by AAW in accordance with Section 3.1(c) and as identified on Exhibit G.

"Phase IV Regional Water Facilities" means the Phase IVA Regional Water Facilities and the Phase IVB Regional Water Facilities.

"Phase IVA Regional Water Facilities" means that portion of the Phase IV Regional Water Facilities needed to provide Water Services to the Project and the Adjacent Lands as detailed in the AAW Master Plan to be prepared by AAW in accordance with Section 3.1(c) and as identified on Exhibit G.

"Phase IVB Regional Water Facilities" means that portion of the Phase IV Regional Water Facilities needed to provide Water Services to the Project and the Adjacent Lands as detailed in the AAW Master Plan to be prepared by AAW in accordance with Section 3.1(c) and as identified on Exhibit G.

"Portola" means Portola Development, Arizona, L.L.C., an Arizona limited liability company.

"Portola Agreement" means the Portola Water/Wastewater Agreement dated as of January 15, 2003, between Portola and AAW, including all exhibits and any other attachments, as amended from time to time.

"Prime Rate" means the interest rate per annum designated by Bank One, Arizona, NA, a national banking association (or its successors), as its "Prime Rate," as publicly announced by Bank One (or such successors) from time to time as a means of pricing credit extensions to same customers.

"Project" has the meaning set forth in Recital A.

"Project Facilities Fee" has the meaning set forth in Section 4.10.

"RC Sewer" means Rancho Cabrillo Sewer Company, an Arizona corporation.

"RC Water" means Rancho Cabrillo Water Company, an Arizona corporation.

"Refunds" has the meaning set forth in Exhibit D.

"Regional Wastewater Collection Facilities" means all facilities necessary to transport wastewater from the On-Site Subdivision Facilities to the Regional Wastewater Treatment Facilities.

"Regional Wastewater Treatment Facilities" means the existing Sun City West Water Reclamation Plant (owned by AAW) and all necessary expansions and modifications required to treat the wastewater from the Project and the Adjacent Lands.

"Regional Water Facilities" means (1) all water production, treatment, storage, and pumping facilities (whether or not located within the Project boundaries) necessary to provide Water Services to the Project and the Adjacent Lands, and (2) all water transmission facilities located outside of the Project boundaries.

"Representative" has the meaning set forth in Section 8.1.

"Subsequent Regional Wastewater Collection Facilities" means the portion of the Regional Wastewater Collection Facilities to be constructed by AAW after completion of the Phase I, Phase II, and Phase IV Regional Wastewater Collection Facilities.

"Subsequent Regional Water Facilities" means the portion of the Regional Water Facilities to be constructed by AAW after the completion of the Phase I, Phase II, and Phase IV Regional Water Facilities.

"substantially commenced" has the meaning set forth in Section 5.4(b).

"Wastewater Services" means collection, treatment and disposal of wastewater from individual residential homes, commercial properties, schools, parks, churches or other improvements.

"Water Services" means production, storage, treatment and distribution of water which is fit for human consumption to individual residential homes, commercial properties, resorts, schools, parks, churches or other improvements. Water Services includes fire flows as required by the local jurisdiction or emergency service provider.

"Water and Sewer Facilities Hook-Up Fees" has the meaning set forth in Section 4.9.

"Webb Agreement" means the Pleasant Valley Country Club Water/Wastewater Agreement dated as of August 5, 2002, between Webb Home and AAW, including all exhibits and any other attachments, as amended from time to time.

"Webb Home" or "Webb" means Del Webb Home Construction, Inc., an Arizona corporation.

**EXHIBIT B**  
**PROJECT AREA**



PRELIMINARY PLAT FOR

RANCHO CABRILLO  
PARCELS "A", "B", "D" & "F"

A portion of the NW 1/4, the NE 1/4 and the SE 1/4 of Section 3, T. 4 N., R. 1 W.

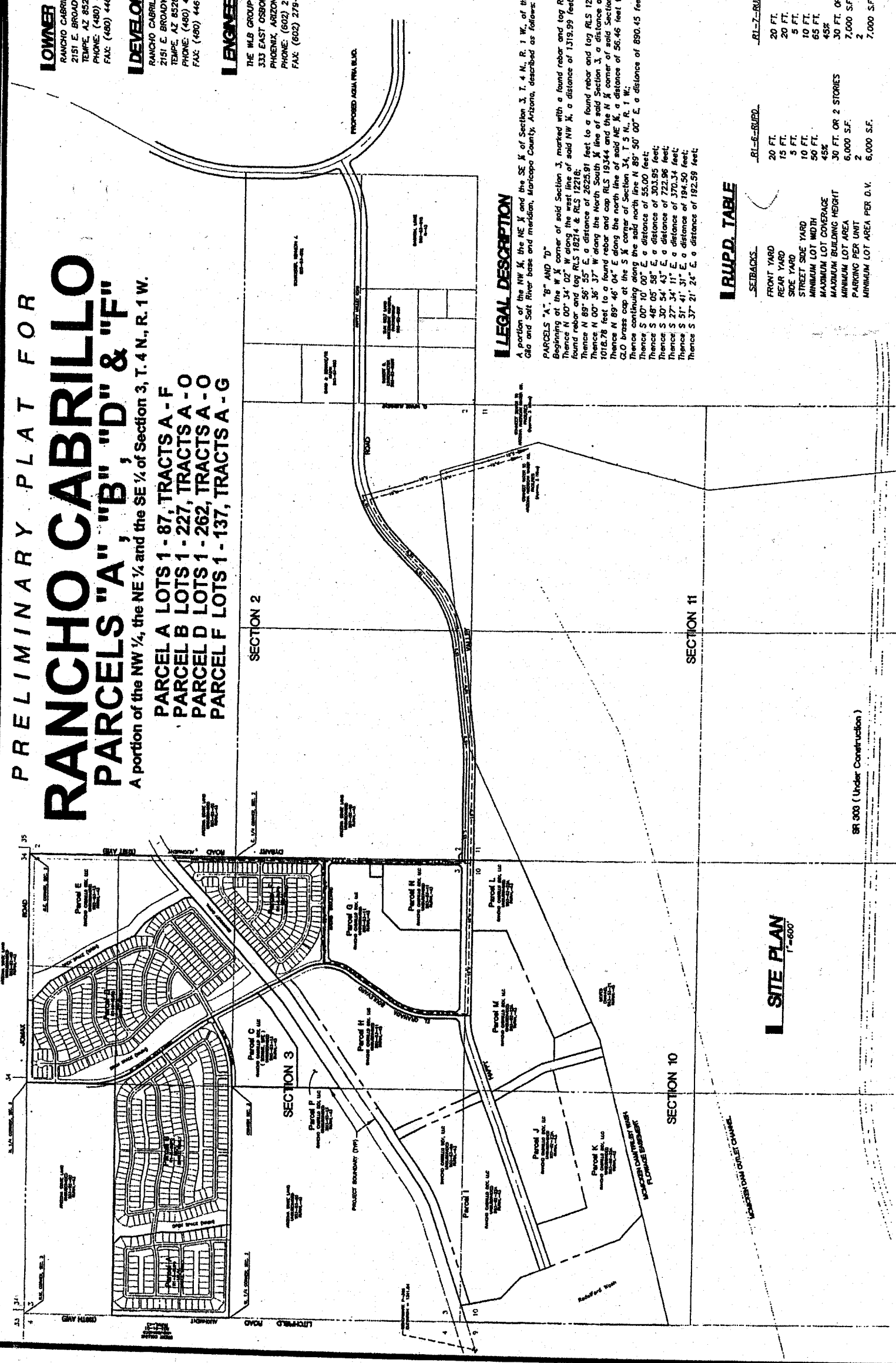
PARCEL A LOTS 1-87, TRACTS A-F  
PARCEL B LOTS 1-227, TRACTS A-O  
PARCEL D LOTS 1-262, TRACTS A-O  
PARCEL F LOTS 1-137, TRACTS A-G

**OWNER**  
RANCHO CABRILLO DEVELOPMENT LLC  
2151 E. BROADWAY STE. 210  
TEMPE, AZ 85282  
PHONE: (480) 446-8800  
FAX: (480) 446-9220

**DEVELOPER**  
RANCHO CABRILLO DEVELOPMENT LLC  
2151 E. BROADWAY STE. 210  
TEMPE, AZ 85282  
PHONE: (480) 446-8800  
FAX: (480) 446-9220

**ENGINEER**  
THE WLB GROUP INC.  
333 EAST OSBORN RD. STE. 380  
PHOENIX, ARIZONA 85012  
PHONE: (602) 279-1016  
FAX: (602) 279-7810

RANCHO CABRILLO



## EXHIBIT C

### ESTIMATE OF DEVELOPER'S ADVANCES PURSUANT TO SECTION 4.5<sup>1</sup>

#### On-Site Subdivision Facilities (Section 4.1(a) Costs))

On-Site Water Facilities .....	\$3,440,000
On-Site Wastewater Facilities.....	\$3,010,000
On-Site Well Transmission Lines .....	\$126,000
Land:	
2 each Well Sites (0.25 acres @ \$26,500 per acre) .....	\$13,250
1 each Booster Station Site (3.0 acres @ \$26,500 per acres).....	\$79,500

#### Meter Installation Fees (Section 4.4 Costs))

Meter Advances (\$65.00 per ERU).....	\$139,750
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<sup>1</sup> Costs associated with Section 4.2(b)(1) and 4.3(a) are estimated to be included in Section 4.1(a) costs as set forth above.

## EXHIBIT D

### REFUNDS OF DEVELOPER'S ADVANCES

1. AAW will pay to Developer refunds of Developer's Advances ("Refunds") as follows:

A. Water Refunds:

- i. Water Refunds in the amount of \$800.00 per ERU first taking permanent (not construction) Potable Water Services during a six-month period ending June 30 or December 31 will be made not later than 30 days after the close of the six-month period. However, when an ERU first taking service is within an area subject to line extension agreement between AAW and a Builder as described in Section 5.15, the water Refund due shall be \$400.00.

B. Wastewater Refunds:

- i. Refunds in the amount of \$200.00 per ERU first taking permanent Wastewater Services during a six-month period ending June 30 or December 31 will be made not later than 30 days after the close of the six-month period.
- ii. Refunds in the amount of 10% of the revenue (excluding taxes and other governmental imposts) derived from provision of Wastewater Services to ERUs in each platted subdivision constructed by Developer or any Affiliate of Developer (but not ERUs constructed by any other Builder) within the Project during each 12-month

period ending June 30 will be made no later than the following August 31. Refunds will be made for service provided through the June 30 following the tenth (10th) anniversary of Operational Acceptance of the first unit or phase of the On-Site Subdivision Facilities for that platted subdivision.

2. The total amount of all Refunds to be made to Developer will not exceed the total amount of Developer's Advances.

**EXHIBIT E**

**ESTIMATES OF REIMBURSABLE COSTS  
AND DEVELOPER'S PRO RATA SHARE**

		Rancho Cabrillo L.L.C.		William Lyon Homes Coldwater Ranch		Grosvenor Holdings, L.L.C.		Portals Development, Arizona L.L.C.				MEHROB L.L.C.					
		Rancho Cabrillo		Coldwater Ranch		Dos Ros & DRII		Rancho Silverado & RR		Cross River		Rio Sierra		Residences		Comm. Plaza	
		Units: 2,150	767	Units: 767	447	Units: 447	280	Units: 280	Units: 68	Units: 68	Units: 68	Units: 68	Units: 68	Units: 68	Units: 68	Units: 68	
		Avg. Day: 0.89383	0.36816	Avg. Day: 0.36816	0.21456	Avg. Day: 0.21456	0.1668	Avg. Day: 0.1668	Avg. Day: 0.336	Avg. Day: 0.336	Avg. Day: 0.1344	Avg. Day: 0.1344	Avg. Day: 0.03284	Avg. Day: 0.03284	Avg. Day: 0.03284	Avg. Day: 0.03434	
Percent	Cost	Percent	Cost	Percent	Cost	Percent	Cost	Percent	Cost	Percent	Cost	Percent	Cost	Percent	Cost	Percent	Cost
31.9%	603,402	13.1%	245,535	7.7%	144,844	6.0%	112,602	12.0%	226,825	4.8%	90,730	1.2%	22,034	1.2%	23,182	1.2%	23,182
31.9%	195,657	13.1%	80,589	7.7%	46,967	6.0%	36,512	12.0%	73,550	4.8%	29,420	1.2%	7,145	1.2%	7,517	1.2%	7,517
31.9%	19,868	13.1%	8,101	7.7%	4,721	6.0%	3,670	12.0%	7,393	4.8%	2,957	1.2%	718	1.2%	756	1.2%	756
31.9%	239,312	13.1%	98,570	7.7%	57,446	6.0%	44,659	12.0%	89,960	4.8%	35,964	1.2%	8,739	1.2%	9,184	1.2%	9,184
40.3%	27,309	16.8%	11,248	9.7%	6,555	7.5%	5,066	15.1%	10,266	6.1%	4,106	1.5%	987	1.5%	1,049	1.5%	1,049
31.9%	239,312	13.1%	98,570	7.7%	57,446	6.0%	44,659	12.0%	89,960	4.8%	35,964	1.2%	8,739	1.2%	9,184	1.2%	9,184
	1,324,659		545,614		317,879		247,188		497,953		199,181		48,373		50,892		50,892
40.3%	76,030	16.8%	31,316	9.7%	18,251	7.5%	14,188	15.1%	28,580	6.1%	11,432	1.5%	2,776	1.5%	2,921	1.5%	2,921
40.3%	34,559	16.8%	14,234	9.7%	8,296	7.5%	6,449	15.1%	12,991	6.1%	5,186	1.5%	1,262	1.5%	1,328	1.5%	1,328
40.3%	124,412	16.8%	51,244	9.7%	29,865	7.5%	23,217	15.1%	46,768	6.1%	18,707	1.5%	4,543	1.5%	4,780	1.5%	4,780
40.3%	35,313	16.8%	22,807	9.7%	13,292	7.5%	10,333	15.1%	20,815	6.1%	8,326	1.5%	2,022	1.5%	2,127	1.5%	2,127
	296,373		119,602		69,703		54,187		109,154		43,962		10,604		11,166		11,166
				23.4%	36,067	18.2%	26,039	36.6%	56,462	14.8%	22,593	3.8%	5,467	3.7%	5,773		5,773
				25.2%	32,420	19.8%	25,203	39.4%	50,769	15.8%	20,308		5,487		5,773		5,773
					68,487		53,242		107,251		42,900						
				22.5%	34,891	22.5%	19,273	45.2%	69,880	18.1%	27,952	4.4%	6,768	4.8%	7,142		7,142
				22.5%	19,273	22.5%	19,273	45.2%	38,822	18.1%	15,529	4.4%	3,771	4.8%	3,968		3,968
				100.0%	42,900	100.0%	42,900	100.0%	85,800	100.0%	65,800						
								100.0%	85,800	100.0%	42,900						
									42,900	100.0%	42,900						
									323,203		215,081		10,560		11,110		11,110
				100.0%	308,880	100.0%	128,700										
				100.0%	437,580		437,580										
70.8%	248,603	29.2%	102,397	29.2%	87,519	29.2%	41,891	45.2%	69,880	18.1%	27,952	4.4%	6,768	4.8%	7,142		7,142
70.8%	212,461	28.2%	87,519	28.2%	41,891	28.2%	41,891	45.2%	38,822	18.1%	15,529	4.4%	3,771	4.8%	3,968		3,968
70.8%	96,307	28.2%	23,193	28.2%	23,193	28.2%	23,193	45.2%	38,822	18.1%	15,529	4.4%	3,771	4.8%	3,968		3,968
	517,391		213,189		213,189		213,189		42,900		42,900						
100.0%	308,880	100%	308,880														
										</							

abirio L.L.C.				Graewater Holdings, L.L.C.				Parish Development, Arizona L.L.C.				MEHROB L.L.C.			
S. Cabrillo				Dos Rios & DRI				Rancho Siverado & NF				Rio Sierra (75%)			
2,150				Units: 447				Units: 400				Units: 710			
0.4871				Avg. Day: 0.1144				Avg. Day: 0.089				Avg. Day: 0.0339			
Allocation				Allocation				Allocation				Allocation			
Cost	Percent	Cost	Percent	Cost	Percent	Cost	Percent	Cost	Percent	Cost	Percent	Cost	Percent		
152,438	19.0%	61,489	7.6%	61,763	5.9%	48,060	11.9%	90,748	1.2%	9,064	3.9%	29,046	1.2%		
197,048	19.0%	79,469	7.6%	54,252	5.9%	42,207	11.9%	84,882	1.2%	8,489	3.9%	25,514	1.2%		
188,724	18.7%	68,097	7.6%	114,728	5.9%	89,295	11.9%	179,714	1.2%	17,951	3.9%	53,954	1.2%		
262,854	13.1%	106,034		238,744		179,512		381,448		42,388		188,514			
220,975	13.1%	90,139													
488,447	13.1%	198,983													
1,500,544		804,181													
			28.9%	48,278	23.3%	37,559	48.8%	75,624							
			28.9%	45,168	23.3%	35,139	48.8%	70,753							
			28.6%	36,641	22.3%	28,506	44.8%	57,896					5,573		
			28.6%	42,385	22.3%	32,975	44.8%	66,394					6,447		
			28.6%	44,536	22.3%	34,640	44.8%	69,769					6,714		
			25.2%	68,712	19.6%	67,462	39.5%	135,633					17,450		
				383,728		238,249		475,765					31,983		
			100.0%	179,010											
273,234															
331,868															
			26.7%	182,765											
314,503			26.7%	126,621											
			26.7%	171,535											
1,549,975				384,516											
			100.0%	184,652											

**EXHIBIT F**  
**INSURANCE**

I. Developer will carry or cause to be carried the following insurance:

A. Comprehensive General Liability Insurance coverage including premises, operations, products, completed operations, and contractual liability coverages in an amount no less than \$1,000,000 per occurrence, \$1,000,000 personal injury and advertising injury, \$2,000,000 Products and Completed Operations Aggregate and \$2,000,000 General Aggregate. Coverage will include:

1. Liability arising out of work or acts of subcontractors.
2. Deductible of no more than \$100,000 per occurrence.
3. Deletion of any limitation or exclusion on coverage for bodily injury or property damage arising out of subsidence or soil or earth movement ("x, c, u").
4. A provision that the insurance company has a duty to defend all insureds under the policy and that defense costs are paid in addition to and do not deplete the policy limits.
5. Coverage under the Contractual Liability section broad enough to cover the terms and conditions of Section 5.8 ("Indemnification") of this Agreement.

B. Automobile Liability Insurance for all motor vehicles operated by or for Developer, including owned, hired, leased and non-owned autos, with minimum Combined Single Limit for Bodily Injury (including death) and Property Damage of \$1,000,000 for each occurrence.



- C. Workers Compensation Insurance to cover statutory limits of Workers Compensation Laws of the state in which any work is being performed and the state in which the employee is hired. Workers Compensation coverage will extend to any individual, including owners, directors, officers, and employees who will be performing any work at the Project or the Facilities regardless of any ability under state law to reject workers compensation coverage. If any class of employees engaged in work at the Project or the Facilities is not protected by the Workers Compensation statute, Developer will provide special insurance for the protection of such employees not otherwise protected, which is similar to the coverage required above.
- D. Employers Liability Insurance coverage in an amount not less than \$1,000,000 each accident; \$1,000,000 disease policy limit; \$1,000,000 disease each employee.
- E. Excess Liability or Umbrella Insurance coverage extending Developer's coverage excess of any general liability, automobile liability, and employers liability coverage on a "follow form" basis to bring the total limits available per occurrence and per aggregate to an amount not less than \$35,000,000.
- F. Excess Liability or Umbrella Insurance coverage extending subcontractors' coverage excess of any general liability, automobile liability, and employers liability coverage on a "follow form" basis in the amount of \$1,000,000 per occurrence and per aggregate.
- G. Professional Liability Insurance. If any professional services will be performed, professional liability coverage in an amount at no less than \$1,000,000, including:

1. Deletion of any limitation or exclusion of coverage for bodily injury or property damage arising out of subsidence or soil or earth movement.
2. Deletion of any exclusion or limitation of coverage based on the type or use of building or structure.

H. Property Insurance. Developer will also maintain adequate property insurance on (and will maintain adequate security for) its equipment and building materials.

II. The following general requirements apply to all insurance policies described in this Exhibit:

- A. All liability insurance policies, except professional liability insurance, will be written on an occurrence basis.
- B. All liability insurance policies required under this Exhibit will: (i) name AAW, its related or affiliated entities, parents, subsidiaries, partnerships, joint ventures, trusts, limited liability companies, and assigns, of any tier, and their respective directors, officers, partners, agents, employees, volunteers, members, managers, trustees, and shareholders as "additional insured"; (ii) be issued by an insurer and will be in a form approved by AAW; and (iii) provide that such policies will not be canceled or non-renewed and that no material change will be made to the policy without at least thirty (30) days' prior written notice to AAW.
- C. All insurance policies (except professional liability and automobile liability policies) will include a Waiver of Subrogation in favor of AAW, its related or affiliated entities, parents, subsidiaries, partnerships, joint ventures, limited liability companies, and assigns, of any tier, and their respective directors,


officers, partners, agents, employees, volunteers, members, managers, and shareholders.

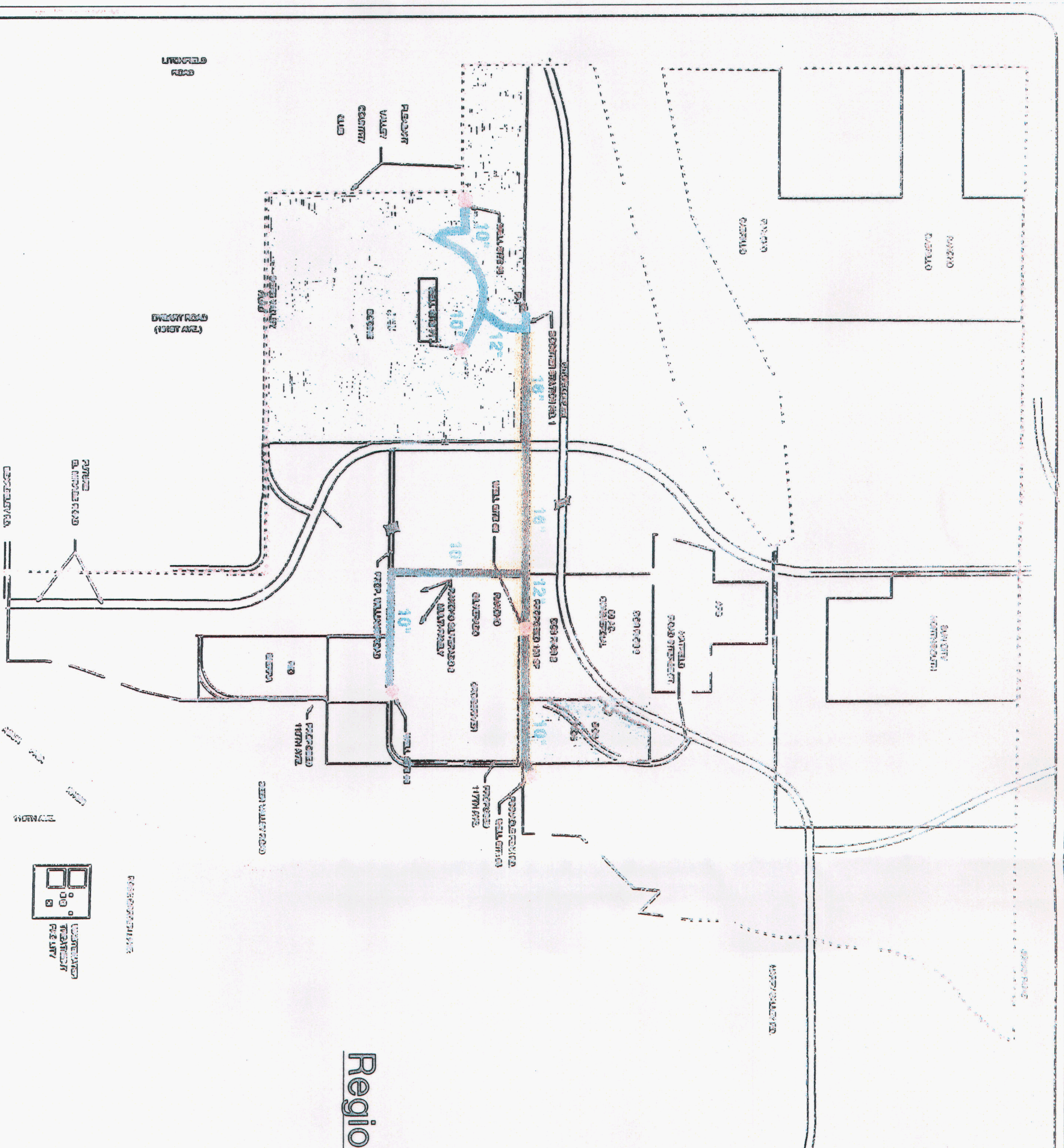
- D. The liability insurance policies will provide that such insurance will be primary on a non-contributory basis.
- E. All insurers providing the coverages specified in this Section will be rated A VII or better by A.M. Best's.
- F. Developer will provide certificates evidencing the insurance coverages required by this Exhibit to AAW before the commencement of any work by or at the direction of Developer. Replacement certificates will be sent to AAW, as policies are renewed, replaced, or modified.
- G. The foregoing insurance coverage must be maintained in force at all times during the terms of this Agreement. Liability insurance (for Products, Work, and Completed Operations, if any) is to be maintained for not less than 10 years following the last system hook-up within the boundaries of the Project.
- H. The insurance requirements set forth in this Section in no way limit Developer's liability arising out of work performed under this Agreement, any agreement, or related activities.
- I. Developer will remain primarily liable for the work performed by all third parties engaged by Developer. Notwithstanding anything to the contrary in this Agreement, waiver of any insurance requirements specified in this Exhibit, including the amount or extent of insurance coverage, may only be obtained upon written authorization of AAW.

**EXHIBIT G**

**AAW MASTER PLAN MAPS**




  
**Arizona-American**  
**Water Company**  
 1001 N. 5th Street, Suite 200  
 Phoenix, Arizona 85014  
 (602) 593-6000



**LEGEND**  
**WELL SITES**  
**PIPE SIZE**  
**STUDY AREA BOUNDARY**  
**Regional Water Facilities**  
**Phase IIA - Morrison**





AGUA FRIA MASTER PLAN

GOE & VAN LOO

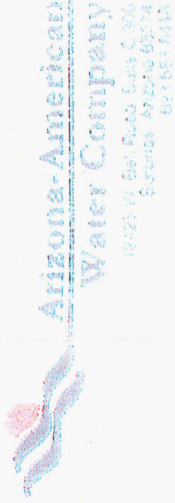
PLANNING, ENGINEERING, LANDSCAPE ARCHITECTURE

SEWER MASTER PLAN

4550 NORTH 12TH STREET  
PHOENIX, ARIZONA 85014  
TELEPHONE (602) 264-6831

10/20/15-JH

FIGURE 1



LEGEND

NODES

PIPE IDENTIFICATION

DIRECTION OF FLOW

TRIBUTARY SUB-AREA

LIFT STATION

SEWER LINE SIZE

SECTION NUMBER

SECTION LINE

STUDY AREA BOUNDARY



- Phase I - Webb
- Phase II - Morrison
- Phase III - Kennedy
- Phase IVA - Robson
- Phase IVB - Robson
- Phase IVC - Robson
- Phase V - William Lyon









## EXHIBIT H

### ESCROW AGREEMENT

ESCROW AGREEMENT (the "Agreement") dated as of January \_\_\_\_, 2004, among ARIZONA-AMERICAN WATER COMPANY, an Arizona corporation ("AAW"), RANCHO CABRILLO DEVELOPMENT, L.L.C., an Arizona limited liability company ("Developer"), and J.P. Morgan Trust Company, National Association, as escrow agent (the "Escrow Agent").

#### RECITALS:

A. For purposes of providing public utility water and wastewater services, AAW and Developer have entered into the Rancho Cabrillo Water/Wastewater Agreement dated as of January \_\_\_\_, 2004 (the "Water/Wastewater Agreement").

B. Developer is obligated to pay a pro rata share of the costs of the Phase I Regional Water Facilities, the Phase I Regional Wastewater Collection Facilities, and the Phase IIA Regional Water Facilities pursuant to Section 4.12(c)(i) of the Water/Wastewater Agreement.

C. For purposes of securing the Developer's pro rata share of those costs, Section 4.12(c)(ii)(A) of the Water/Wastewater Agreement requires Developer to deposit Two Million Five Hundred Thousand and 00/100THS Dollars (\$2,500,000) into an escrow account.

D. AAW and Developer desire the Escrow Agent to serve as the Escrow Agent for purposes of holding the amounts to be deposited by Developer.

E. The Escrow Agent is willing to serve on the terms and conditions set forth in this Agreement.

#### AGREEMENT:

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Appointment of the Escrow Agent. AAW and Developer hereby appoint the Escrow Agent, and the Escrow Agent hereby accepts its appointment and designation, as the Escrow Agent pursuant to the terms and conditions of this Agreement.

2. Delivery of Escrow Fund.

a. Initial Delivery. Concurrently with the execution of this Agreement, Developer has delivered to the Escrow Agent cash in the amount of Two Million Five Hundred Thousand and 00/100THS Dollars (\$2,500,000) by certified or bank cashier's check or by wire transfer of funds (the "Escrow Fund").



b. Deposit. The cash delivered by Developer to the Escrow Agent pursuant to Section 2(a) will be deposited by the Escrow Agent into a segregated, interest-bearing account maintained at the Escrow Agent (the "Escrow Account").

3. Withdrawals From Escrow Account. Amounts will be paid by the Escrow Agent to AAW pursuant to a fully completed and duly executed Disbursement Request submitted by AAW, in substantially the same form as the Disbursement Request Form attached hereto as Exhibit A. No amount will be withdrawn from the Escrow Account except as authorized by such a Disbursement Request. If the Escrow Agent receives a request to disburse funds from the Escrow Account that is not accompanied by a Disbursement Request, the Escrow Agent will not act thereon or otherwise make withdrawals or payments in connection therewith and will notify AAW of the non-compliance. Upon receipt of a Disbursement Request, the Escrow Agent will draw the requested amount from the Escrow Account and deliver the amount to AAW within five (5) days.

4. Investment of Escrow Fund. The Escrow Fund will be invested by the Escrow Agent in the Government Money Market Fund – S Shares offered by the Escrow Agent or, with the consent of AAW, in direct obligations of the United States or any of its instrumentalities, provided however, that the maturities of any investment be no longer than what would permit the Escrow Agent to honor a Disbursement Request. The Escrow Agent will hold the Escrow Fund together with all interest accumulated and proceeds received in connection with the Escrow Fund and dispose of the same in accordance with the terms and conditions of this Agreement. For federal income tax purposes the owner of the Escrow Account is deemed to be Developer, and any reporting by Escrow Agent to the Internal Revenue Service with respect to the Escrow Account will be made in accordance with that designation.

5. Term; Termination; Close-Out.

a. Term. This Agreement is effective as of the date hereof and will continue until Escrow Agent has received written notice from AAW (i) that Developer has met its payment obligations under Section 4.12(c)(i)(E) of the Water/Wastewater Agreement, or (ii) that AAW has received from Escrow Agent the entire amount deposited pursuant to Section 2(a) (together with any other amounts deposited in the Escrow Fund from time to time) and all interest or other earnings thereon.

b. Termination. Upon receipt by Escrow Agent of the notice described in paragraph (a) above, all obligations pursuant to this Agreement among the Escrow Agent, AAW and Developer will thereupon cease and the Escrow Account will terminate (the "Termination Date").

c. Final Close-Out. If any amounts are still held in the Escrow Account on the Termination Date, the Escrow Agent will disburse all such amounts to Developer within seven (7) days after the Termination Date.

6. General Provisions.

a. Binding Effect; Assignment. This Agreement will be binding upon and inure to the benefit of the parties and their respective successors and assigns. The Escrow Agent may not assign its rights or delegate its duties under this Agreement without the prior written consent of AAW and Developer. AAW and Developer may not assign their rights or delegate their duties without the prior written consent of the other party.

b. Communications. Any notice, demand, request or other communication required or authorized by this Agreement to be given in writing to a party must be either (a) personally delivered, (b) mailed by registered or certified mail (return receipt requested), postage prepaid, (c) sent by overnight express carrier, or (d) sent by telecopy or electronic mail, in each case at the following address:

To the Developer addressed as follows:

Rancho Cabrillo Development, L.L.C.  
2151 East Broadway Road, Suite 210  
Tempe, AZ 85282  
Attention: Steve Robson

with a copy to:

Tiffany & Bosco, P.A.  
Attn: Mark Dioguardi, Esq  
1850 North Central Avenue  
Phoenix, Arizona 85004

or to such other address as Developer may advise AAW and Escrow Agent in writing, and to AAW at:

Arizona-American Water Company  
Attn: Engineering Director  
19820 North 7<sup>th</sup> Street  
Phoenix, Arizona 85024

with a copy to:

Gallagher & Kennedy, P.A.  
Attn: Terence W. Thompson, Esq.  
2575 East Camelback Road  
Phoenix, Arizona 85016

or to such other address as AAW may advise Developer and Escrow Agent in writing, and to Escrow Agent at:

J.P. Morgan Trust Company, National Association  
Institutional Trust Services  
201 North Central Avenue, 26<sup>th</sup> Floor  
Mail Code AZ1-1128  
Phoenix, Arizona 85004

or to such other address as Escrow Agent may advise Developer and AAW in writing. All notices, demands, requests or other communications sent pursuant to this Section will be deemed received (i) if personally delivered, on the business day of delivery, (ii) if sent by telecopy or electronic mail before noon (12:00 p.m.) Phoenix time, on the day sent if a business day or, if such day is not a business day or if sent after noon (12:00 p.m.) Phoenix time, on the next business day, (iii) if sent by overnight express carrier, on the next business day immediately following the day sent, or (iv) if sent by registered or certified mail, on the earlier of the third business day after the day sent or when actually received. Any notice by telecopy or electronic mail will be followed by delivery on the next business day by overnight express carrier or by hand.

c. Exculpation. In no event will the Escrow Agent be liable for any act or failure to act under the provisions of this Agreement, except where its acts are the result of its own gross negligence or willful misconduct. The Escrow Agent will have no duties except those which are expressly set forth in this Agreement, and it will not be bound by any notice of a claim, or demand with respect thereto, or any waiver, modification, amendment, termination or rescission of this Agreement, unless in writing received by it and signed by AAW and Developer. No right, duty or obligations of the Escrow Agent hereunder will be changed or modified without the Escrow Agent's prior written consent.

d. Reliance on Documents. The Escrow Agent will be protected in acting upon any written notice, request, waiver, consent, receipt or other paper or document furnished to it in connection herewith, not only as to its due execution and the validity and effectiveness of its provisions, but also as to the truth and acceptability of any information therein contained, which it reasonably believes to be genuine and what it purports to be.

e. Resignation. The Escrow Agent may resign at any time by giving a minimum of thirty (30) days' prior written notice of resignation to both AAW and Developer, the resignation to be effective on the date specified in the notice. Any assets held by the Escrow Agent under the terms of this Agreement as of the effective date of the resignation will be delivered to a successor Escrow Agent designated in writing by both AAW and Developer.

f. Other Documents. The Escrow Agent is not a party to, and is not bound by, any agreement which may be evidenced by, or arise out of, the foregoing instructions, other than as expressly set forth herein. In the event that any of the terms and provisions of any other agreement (excluding any amendment to this Agreement) between any of the parties hereto conflict or are inconsistent with any of the provisions of this Agreement, the terms and provisions of this Agreement will govern and control in all respects.

g. Escrow Agent Fees. Developer will pay all of the Escrow Agent's reasonable fees and out-of-pocket expenses for acting as the Escrow Agent under this Agreement, including legal fees, wire charges, postage, long distance calls and express mail, which fees and expenses will be in accordance with its customary fee schedule (the "Escrow Fee"). Developer and AAW each authorize Escrow Agent to withdraw from the Escrow Account the Escrow Fee as and when the Escrow Fee becomes due and payable.

h. Mediation/Arbitration. Any dispute, controversy or claim (including without limitation tort claims, requests for provisional remedies or other interim relief, and issues as to arbitrability of any matter) arising out of or relating to this Agreement, or the breach thereof, that cannot be settled through negotiation will be settled (i) first, by the parties trying in good faith to settle the dispute by mediation under the Commercial Mediation Rules of the American Arbitration Association ("AAA") (such mediation session to be held in Phoenix, Arizona and to commence within 60 days of the appointment of the mediator by the AAA), and (ii) if the dispute, controversy or claim cannot be settled by mediation, then by arbitration administered by the AAA under its Commercial Arbitration Rules (such arbitration to be held in Phoenix, Arizona before a single arbitrator and to commence within 60 days of the appointment of the arbitrator by the AAA), and judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction.

i. Attorneys' Fees. In the event of any arbitration proceeding with respect to this Agreement, the prevailing party and the Escrow Agent, if the arbitration was instituted by the Escrow Agent to determine the relative rights of the other two parties, will be reimbursed by the nonprevailing party for all expenses incurred therewith, including reasonable attorneys' fees.

j. Choice of Law. This Agreement will be governed by and construed in accordance with the laws of the State of Arizona.

k. Counterparts. This Agreement may be executed in one or more counterparts, each of which will be deemed an original and all of which together will constitute one and the same instrument.

l. Headings. The headings in this Agreement are inserted for convenience only and are in no way intended to describe, interpret, define, or limit the scope, extent, or intent of this Agreement or any provision hereof.

m. Power and Authority. All signatories to this Agreement represent and warrant that they have full and complete authority to enter into this Agreement and to sign this Agreement on behalf of themselves or the entity on whose behalf they are signing.

n. Indemnification. The parties will indemnify and hold harmless the Escrow Agent against all losses, liabilities and expenses incurred in connection with any claim arising out of or in connection with its entering into this Agreement or carrying out its duties hereunder, including the costs of defending itself against such claims, absent gross negligence or bad faith on its part and provided that the Escrow Agent acted in accordance with the terms of this Agreement.

o. Amendment. This Agreement may be amended, modified, superseded, cancelled, renewed or extended and the terms or covenants hereof may be waived only by a written instrument executed by all the parties hereto or, in the case of a waiver, by the party waiving compliance.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above set forth.

ARIZONA-AMERICAN WATER COMPANY,  
an Arizona corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

RANCHO CABRILLO DEVELOPMENT,  
L.L.C., an Arizona limited liability company

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

J.P. Morgan Trust Company, National  
Association

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

EXHIBIT A TO ESCROW AGREEMENT

DISBURSEMENT REQUEST

\_\_\_\_\_, 200\_\_

To: \_\_\_\_\_, the Escrow Agent  
Copy: Rancho Cabrillo Development, L.L.C.

1. Rancho Cabrillo Development, L.L.C., an Arizona limited liability company ("Developer"), is obligated to make a payment to Arizona-American Water Company, an Arizona corporation ("AAW"), pursuant to Section 4.12(c)(i)(E) of that certain Water/Wastewater Agreement dated as of January \_\_\_\_, 2004, among AAW, Developer and others.

2. AAW requests a disbursement from the Escrow Account pursuant to Section 3(a) of that certain Escrow Agreement dated January \_\_\_\_, 2004 among AAW, Developer and Escrow Agent.

3. The request is in the amount of \$\_\_\_\_\_.

4. The work which is the subject of the draw request has undergone Operational Acceptance (as defined in the applicable agreement).

ARIZONA-AMERICAN WATER COMPANY,  
an Arizona corporation

By \_\_\_\_\_  
Its \_\_\_\_\_

**EXHIBIT I**

**FORM OF NOTICE AS TO ASSIGNMENT OF REFUNDS**

[Letterhead of Developer]

[Date]

Arizona-American Water Company  
Attn: Engineering Director  
19820 North 7<sup>th</sup> Street  
Phoenix, Arizona 85024

Re: Assignment of Refunds under Rancho Cabrillo Water/Wastewater Agreement (the "Agreement") dated as of January \_\_\_\_, 2004, among Rancho Cabrillo Development, L.L.C. ("Developer"), Arizona-American Water Company, and others

Dear Engineering Director:

Pursuant to Section 10.4 of the Agreement, Developer hereby notifies you that Developer intends to assign its right to receive refunds under Section 4.6 of the Agreement with respect to the lots described on the attached legal description and the attached map (which description and map have been prepared and sealed by a registered engineer or registered land surveyor).

The name and address of the assignee are:\_\_\_\_\_. Such name and address are to be used for payment of the assigned refunds and for all other matters pertaining to the assignee.

RANCHO CABRILLO DEVELOPMENT,  
L.L.C.

By:\_\_\_\_\_  
Its:\_\_\_\_\_

C



**EXHIBIT C**

**Legal Description  
Certificate of Convenience and Necessity  
Arizona-American Water Company, Agua Fria Water District  
And Anthem/Agua Fria Wastewater District  
Proposed Water and Sewer Service Transfer Area From Rancho Cabrillo Water and  
Wastewater Company**

Township 4 North, Range 1 West of the Gila and Salt River Base and Meridian, Maricopa County,  
Arizona

The North half (N ½) of Section 10;

The East half (E ½) and the South half (S ½) of the Northwest Quarter (NW ¼) Section 3.

D

Decision folder

Arizona Corporation Commission

BEFORE THE ARIZONA CORPORATION COMMISSION DOCKETED

MAY 04 2001

DOCKETED BY	sd
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1  
2 WILLIAM A. MUNDELL  
3 CHAIRMAN  
4 JIM IRVIN  
5 COMMISSIONER  
6 MARC SPITZER  
7 COMMISSIONER

8 IN THE MATTER OF THE APPLICATION OF  
9 RANCHO CABRILLO SEWER COMPANY FOR A  
10 CERTIFICATE OF CONVENIENCE AND  
11 NECESSITY TO PROVIDE SEWER SERVICE.

DOCKET NO. SW-03898A-00-0789

DECISION NO. 63658

OPINION AND ORDER

9 DATE OF HEARING: March 14, 2001

10 PLACE OF HEARING: Phoenix, Arizona

11 PRESIDING JUDGE: Mr. Stephen Gibelli

12 APPEARANCES: Mr. Mark D. Dioguardi, TIFFANY AND BOSCO, on  
13 behalf of Rancho Cabrillo Water Company;

14 Mr. Robert Metli, Staff Attorney, Legal Division, on  
15 behalf of the Utilities Division of the Arizona  
16 Corporation Commission.

15 **BY THE COMMISSION:**

16 On October 5, 2000, Rancho Cabrillo Sewer Company ("Rancho Cabrillo" or "Applicant")  
17 filed with the Arizona Corporation Commission ("Commission") an application for a Certificate of  
18 Convenience and Necessity ("Certificate") to provide sewer service for property located in Maricopa  
19 County, Arizona.

20 On October 17, 2000, Rancho Cabrillo filed a request to withdraw its application for a  
21 Certificate as a result of its belief that the area was certificated to another company.

22 On October 19, 2000, a Procedural Order was issued which vacated the hearing and  
23 administratively closed the docket.

24 On November 30, 2000, Rancho Cabrillo filed a letter indicating that it learned subsequent to  
25 the closure of the docket that the area is not certificated.

26 On December 6, 2000, Arizona Corporation Commission Staff ("Staff") filed a Response to  
27 Rancho Cabrillo's Request to Re-Open the Docket.

1 On December 11, 2000, Rancho Cabrillo filed a letter waiving any time clock limitations on  
2 the application.

3 On December 11, 2000, a Procedural Order was issued setting the matter for hearing on  
4 March 14, 2001.

5 On December 14, 2000, Rancho Cabrillo filed a letter certifying that it noticed each of the  
6 customers within the proposed certificated area of its application and the hearing date of March 14,  
7 2001.

8 On February 16, 2001, Staff filed its Staff Report in this matter recommending approval of the  
9 application after a hearing.

10 On March 14, 2001, a full public hearing was convened before a duly authorized  
11 Administrative Law Judge of the Commission at its offices in Phoenix, Arizona. Both Rancho  
12 Cabrillo and Staff appeared with counsel. At the conclusion of the hearing, the matter was taken  
13 under advisement pending submission of a Recommended Opinion and Order to the Commission.

14 \* \* \* \* \*

15 Having considered the entire record herein and being fully advised in the premises, the  
16 Commission finds, concludes, and orders that:

17 **FINDINGS OF FACT**

18 1. On October 5, 2000, Rancho Cabrillo filed an application for a Certificate authorizing  
19 it to construct, operate, and maintain facilities to provide sewer service to the public in a subdivision  
20 of approximately 2,500 homes located in Maricopa County, Arizona, approximately 10 miles west of  
21 Interstate 17, near Happy Valley Road. A legal description of the property is provided in Exhibit A.

22 2. Rancho Cabrillo is an Arizona corporation whose president is Mr. Steve Robson.

23 3. Mr. Robson has interests in many other public utilities in Arizona including Pima  
24 Utility Company, Lago Del Oro Water Company, SaddleBrooke Utility Company, Quail Creek  
25 Water Company, Picacho Water Company and Picacho Sewer Company.

26 4. On January 2, 2001, Rancho Cabrillo filed a copy of the sewer franchise issued by the  
27 Maricopa County Board of Supervisors.

28 5. There is presently no sewer service or customers in the proposed Rancho Cabrillo

subdivision. Rancho Cabrillo does not yet have an Approval to Construct from the Arizona Department of Environmental Quality ("ADEQ").

6. There are no other sewer companies in the area of the development capable of providing service to customers in the proposed certificated area. No other sewer utility is better situated to serve this area than Rancho Cabrillo.

7. The area described in Exhibit A will be provided with water service by Rancho Cabrillo Water Company ("RCWC"), an Arizona corporation, that is also controlled by the individuals who control Rancho Cabrillo.

8. Rancho Cabrillo will construct and operate a wastewater collection system and a one million gallons per day ("MGD") wastewater treatment plant, which should be adequate capacity for a development of this size.

9. The plant will be built in two 0.5 MGD phases and will provide advanced wastewater treatment with de-nitrification.

10. For effluent disposal, Rancho Cabrillo is considering three options: (1) disposal by vadose zone injection wells; (2) discharge to McMicken/Trilby Wash; or (3) discharge to Beardsley canal.

11. On February 16, 2001, Staff filed a Staff Report in which it recommended approval of Rancho Cabrillo's application for a Certificate to provide sewer service.

12. Rancho Cabrillo's proposed rates and charges, as well as Staff's proposed rates and charges are as follows:

	<u>Rancho Cabrillo</u>	<u>Staff</u>
<u>Rates and Charges</u>		
<u>Flat Rate</u>		
Residential (per month)	\$47.50	\$47.50
Commercial (per month)	\$47.50	\$47.50
<u>Service Charges</u>		
Establishment	\$30.00	\$30.00
Reconnection	\$30.00	\$30.00
Deposit	*	*
Deposit Interest	*	*
Re-Establishment (Within 12 months)	**	**
NSF Check	\$15.00	\$15.00
Late Payment Penalty	1.5%	1.5%
Disconnect Reconnect (delinquent account)	\$1,000.00	\$1,000.00

- \* Per Commission Rules (R14-2-603)
- \*\* Months off system times the minimum (R14-2-403.D).

13. Staff also recommended that:

(a) Rancho Cabrillo notify the Commission within 15 days of providing service to its first permanent customer;

(b) Rancho Cabrillo file for a rate review no later than 100 days following the fifth anniversary of the date that it begins providing service to its first customer;

(c) Rancho Cabrillo maintain its books and records in accordance with the NARUC Uniform System of Accounts;

(d) Rancho Cabrillo use the depreciation rates as set forth in Exhibit B.

(e) a provision be included in Rancho Cabrillo's tariff to allow for the flow-through of appropriate State and local taxes as provided in A.A.C. Rule R14-2-409.D;

(f) the Commission condition approval of the application on Rancho Cabrillo filing a copy of its Approval to Construct with the Commission within 365 days from the effective date of the Commission's Decision.

(g) this Decision granting a Certificate to Rancho Cabrillo become null and void without further order from the Commission should Rancho Cabrillo fail to meet the above conditions within the time frames specified.

14. Using Rancho Cabrillo's projections, adjusted for Staff's proposed depreciation rates as set forth in Exhibit B, by its fifth year of operation, Rancho Cabrillo will have Operating Revenues of \$720,068, Operating Expense of \$462,966, and Operating Income of \$257,102 for a 5.9 percent rate of return on a rate base of \$4,356,166.

15. At the March 14, 2001 hearing, Rancho Cabrillo agreed to abide by all of Staff's recommendations.

16. Mr. Robson has the necessary prior experience in operating public utilities to successfully operate Rancho Cabrillo Water Company.

17. After reviewing the evidence herein, we believe that Staff's recommendations with respect to Applicant's request for a Certificate and with respect to its initial rates and charges and

1 proposed depreciation rates as set forth in Exhibit B should be adopted.

2 **CONCLUSIONS OF LAW**

3 1. Applicant is a public service corporation within the meaning of Article XV of the  
4 Arizona Constitution and A.R.S. §§ 40-281 and 40-282.

5 2. The Commission has jurisdiction over Rancho Cabrillo and the subject matter of the  
6 application.

7 3. Notice of the application and hearing thereon was provided in accordance with the  
8 law.

9 4. The public convenience and necessity require, and the public would benefit by, the  
10 granting of a Certificate of Convenience and Necessity to Rancho Cabrillo Sewer Company for the  
11 area more fully described in Exhibit A.

12 5. Rancho Cabrillo is a fit and proper entity to provide sewer services in the proposed  
13 area, which is more fully described in Exhibit A.

14 6. Staff's recommendations set forth in Findings of Fact No. 12 and 13, including its  
15 proposed depreciation rates set forth in Exhibit B, are reasonable.

16 7. The rates and charges adopted herein are reasonable.

17 **ORDER**

18 IT IS THEREFORE ORDERED that the application of Rancho Cabrillo Sewer Company for  
19 a Certificate of Convenience and Necessity authorizing it to construct, maintain, and operate facilities  
20 in order to provide sewer service to the public in the areas more fully described in Exhibit A, be and  
21 is hereby granted.

22 IT IS FURTHER ORDERED that Rancho Cabrillo Sewer Company shall comply with all of  
23 Staff's recommendations in Findings of Fact No. 12 and 13.

24 IT IS FURTHER ORDERED that Rancho Cabrillo Sewer Company shall use the depreciation  
25 rates set forth in Exhibit B.

26 IT IS FURTHER ORDERED that Rancho Cabrillo Sewer Company shall file the following  
27 schedule of rates and charges with the Commission by June 1, 2001:

28

Flat Rate

Residential (per month)	\$47.50
Commercial (per month)	\$47.50

Service Charges

Establishment	\$30.00
Reconnection	\$30.00
Deposit	*
Deposit Interest	*
Re-Establishment (Within 12 months)	**
NSF Check	\$15.00
Late Payment Penalty	1.5%
Disconnect/Reconnect (delinquent account)	\$1,000.00

\* Per Commission Rules (R14-2-603)

\*\* Months off system times the minimum (R14-2-403.D).

IT IS FURTHER ORDERED the rates and charges authorized herein shall be effective for all service rendered until otherwise ordered by the Arizona Corporation Commission.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

*[Signature]*  
CHAIRMAN

*[Signature]*  
COMMISSIONER

*[Signature]*  
COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 14<sup>th</sup> day of May, 2001.

*[Signature]*  
BRIAN C. McNEIL  
EXECUTIVE SECRETARY

DISSENT  
SG:mlj



SERVICE LIST FOR:

RANCHO CABRILLO WATER COMPANY

DOCKET NO.

SW-03898A-00-0789

Mark D. Dioguardi  
Tiffany and Bosco, P.A.  
1850 North Central Avenue, 5<sup>th</sup> Floor  
Phoenix, Arizona 85004  
Attorney for Applicant

Steve Robson, President  
Rancho Cabrillo Water Company  
9532 East Riggs Road  
Sun Lakes, Arizona 85248

Christopher Kempley, Chief Counsel  
Robert Metli  
Legal Division  
ARIZONA CORPORATION COMMISSION  
1200 West Washington Street  
Phoenix, Arizona 85007

Deborah Scott, Director  
Utilities Division  
ARIZONA CORPORATION COMMISSION  
1200 West Washington Street  
Phoenix, Arizona 85007

- The Southeast quarter;
- The South half of the Northwest quarter;
- The South half of the Northeast quarter; and

THENCE along the North line of the Northeast quarter of said Section and the North line of said Lots 1 and 2, N89°45'52"E, 2,625.13 feet to the Northeast corner of said Section 3; said corner also being the Northeast corner of said Lot 1;

THENCE along the East line of the Northeast quarter of said Section 3 and the East line of said Lot 1, S0°43'25"E, 1,025.06 feet to the Southeast corner of said Lot 1;

THENCE along the South line of said Lots 1 and 2, S89°54'43"W, 2,625.93 feet to the Southwest corner of said Lot 2;

THENCE along the North-South midsection line of said Section 3 and the West line of said Lot 2  
N0°40'56"W. 1,018.33 feet to the point of beginning. and

The following property located in Section 10, Township 4 North, Range 1 West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona:

The North half of Section 10

[illegible]

DECISION NO. 63658

## EXHIBIT B

SCHEDULE 2

## TYPICAL DEPRECIATION RATES FOR WASTEWATER COMPANIES

NARUC Account No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
354	Structures & Improvements	30	3.33
355	Power Generation Equipment	30	3.33
360	Collection Sewers - Force	50	2.0
361	Collection Sewers- Gravity	50	2.0
362	Special Collecting Structures	50	2.0
363	Services to Customers	50	2.0
364	Flow Measuring Devices	10	10.0
365	Flow Measuring Installations	20	5.00
366	Reuse Services	50	2.00
367	Reuse Meters and Meter Installations	30	3.33
370	Receiving Wells	30	3.33
371	Pumping Equipment	10	10.0
374	Reuse Distribution Reservoirs	40	2.50
375	Reuse Transmission and Distribution System	50	2.0
380	Treatment and Disposal Equipment	20	5.0
381	Plant Sewers	20	5.0
382	Outfall Sewer Lines	25	4.0
389	Other Plant & Misc Equipment	15	6.67
390	Office Furniture & Equipment	15	6.67
390.1	Computers & Software	5	20.0
391	Transportation Equipment	5	20.0
392	Stores Equipment	25	4.0
393	Tools, Shop & Garage Equipment	20	5.0
394	Laboratory Equipment	10	10.0
395	Power Operated Equipment	20	5.0
396	Communication Equipment	10	10.0
397	Miscellaneous Equipment	10	10.0
398	Other Tangible Plant	---	---

## NOTES:

- 1 These depreciation rates represent average expected rates. Wastewater companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the water.
- 2 Acct. 398, Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

DECISION NO.

63658

E

# STATE OF ARIZONA



## Office of the CORPORATION COMMISSION

### CERTIFICATE OF GOOD STANDING

To all to whom these presents shall come, greeting:

I, Brian C. McNeil, Executive Secretary of the Arizona Corporation Commission, do hereby certify that

**\*\*\*ARIZONA-AMERICAN WATER COMPANY\*\*\***

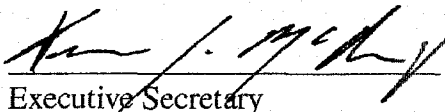
a domestic corporation organized under the laws of the State of Arizona, did incorporate on December 30, 1949.

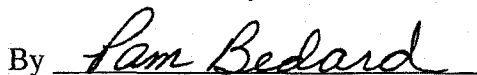
I further certify that according to the records of the Arizona Corporation Commission, as of the date set forth hereunder, the said corporation is not administratively dissolved for failure to comply with the provisions of the Arizona Business Corporation Act; that its most recent Annual Report, subject to the provisions of A.R.S. sections 10-122, 10-123, 10-125 & 10-1622, has been delivered to the Arizona Corporation Commission for filing; and that the said corporation has not filed Articles of Dissolution as of the date of this certificate.

This certificate relates only to the legal existence of the above named entity as of the date issued. This certificate is not to be construed as an endorsement, recommendation, or notice of approval of the entity's condition or business activities and practices.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the Arizona Corporation Commission. Done at Phoenix, the Capital, this 29th Day of January, 2004, A. D.



  
Executive Secretary

By 

F

## **EXHIBIT F**

**Legal Description  
Certificate of Convenience and Necessity  
Arizona-American Water Company, Agua Fria Water District  
And Anthem/Agua Fria Wastewater District  
Proposed Water And Wastewater Service Extension Area**

Township 4 North, Range 1 West of the Gila and Salt River Base and Meridian, Maricopa County,  
Arizona

The Southwest Quarter (SW  $\frac{1}{4}$ ) and the North half (N  $\frac{1}{2}$ ) of the Northwest Quarter (NW  $\frac{1}{4}$ ) Section  
3.



G

MAR 26 2003

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MARC SPITZER, Chairman  
JIM IRVIN  
WILLIAM A. MUNDELL  
JEFF HATCH-MILLER  
MIKE GLEASON

MAR 26 2003

DOCKETED

MAR 20 2003

DOCKETED BY	<i>Mal</i>
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IN THE MATTER OF THE APPLICATION OF  
ARIZONA-AMERICAN WATER COMPANY,  
AGUA FRIA WATER DISTRICT, FOR AN  
EXTENSION OF THE SERVICE AREA UNDER  
ITS EXISTING CERTIFICATE OF  
CONVENIENCE AND NECESSITY TO PROVIDE  
WATER UTILITY SERVICE.

DOCKET NO. WS-01303A-02-0633

N. JAMES

MAR 24 2003

ACTION \_\_\_\_\_

IN THE MATTER OF THE APPLICATION OF  
ARIZONA-AMERICAN, SUN CITY WEST  
WATER DISTRICT FOR A TRANSFER OF A  
PARCEL TO THE AGUA FRIA DISTRICT.

IN THE MATTER OF THE APPLICATION OF  
ARIZONA-AMERICAN, ANTHEM/AGUA FRIA  
DISTRICT (DISTCO) FOR AN EXTENSION OF  
THE SERVICE AREA UNDER ITS EXISTING  
CERTIFICATE OF CONVENIENCE AND  
NECESSITY TO PROVIDE WASTEWATER  
UTILITY SERVICE.

DECISION NO. 65757

OPINION AND ORDER

DATE OF HEARING:

January 16, 2003

PLACE OF HEARING:

Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE:

Marc E. Stern

IN ATTENDANCE:

Commissioner Mike Gleason

APPEARANCES:

Fennemore Craig, by Mr. Norman James, on  
behalf of Arizona-American Water Company;  
and

Mr. Timothy Sabo, Legal Division, on behalf of  
the Utilities Division of the Arizona Corporation  
Commission.

**BY THE COMMISSION:**

On August 20, 2002, Arizona-American Water Company ("AZAM" or "Applicant") on  
behalf of its Agua Fria Water District ("AFWD"), Sun City West Water District ("SCWWD") and  
Anthem/Agua Fria District ("DISTCO") filed with the Arizona Corporation Commission

1 ("Commission") an application to extend AFWD's and DISTCO's service areas under their  
2 Certificate of Convenience and Necessity ("Certificate") for water and wastewater utility service,  
3 respectively. AZAM also requested approval to transfer a parcel from SCWWD's service area to that  
4 of AFWD.

5 Pursuant to A.A.C. R14-2-103(B)(11), on September 24, 2002, by Procedural Order, the  
6 application herein was deemed administratively complete, and set for hearing on December 10, 2002.  
7 The Procedural Order also established filing, intervention and notice requirements for the proceeding.

8 On November 12, 2002, the Commission's Utilities Division ("Staff") filed its report.

9 On November 22, 2002, AZAM and Staff filed what was captioned as "Stipulation Regarding  
10 New Hearing Date and Other Procedural Matters" ("Stipulation"). Therein, AZAM and Staff  
11 stipulated that they had failed to timely meet certain of the "pre-hearing procedural requirements"  
12 including public notice and agreed to a postponement of the hearing to allow for the issuance of a  
13 new Procedural Order for the establishment of new filing dates, intervention requirements and notice  
14 to the public. In the Stipulation, AZAM and Staff agreed as follows: that a hearing be set on or after  
15 January 8, 2003; that the deadline for filing for intervention be on or before December 27, 2002; that  
16 AZAM file its comments, if any, to the Staff Report on or before December 18, 2002; and that  
17 AZAM publish notice of the application and hearing thereon on or before December 6, 2002.

18 On November 25, 2002, by Procedural Order, pursuant to the Stipulation between AZAM and  
19 Staff the hearing was continued from December 10, 2002, to January 16, 2003. Other procedural  
20 dates were established as follows: AZAM was required to publish notice of the application and  
21 hearing thereon by December 6, 2002; AZAM was to file comments on the Staff Report by  
22 December 18, 2002; and requests for intervention were to be filed by December 27, 2002.

23 On December 6, 2002, AZAM and Staff filed what was captioned "Stipulation Regarding  
24 Publication of Notice ("Notice Stipulation") wherein it was agreed that AZAM would provide notice  
25 on or before December 13, 2002 pursuant to the terms of the Third Procedural Order and AZAM  
26 agreed to waive its right to object to motions to intervene on the basis that the motion was not timely  
27 filed.

28 On December 18, 2002, AZAM filed its comments on the Staff Report.

On January 6, 2003, AZAM filed certification that it had published notice pursuant to the Commission's third Procedural Order.

On January 16, 2003, a full public hearing was convened before a duly authorized Administrative Law Judge of the Commission at its offices in Phoenix, Arizona. AZAM and Staff appeared with counsel. Public comment was taken in support of the application from a number of developers and from a program manager of the Maricopa County Environmental Services Department ("MCESD"). At the conclusion of the hearing, the matter was taken under advisement pending submission of a Recommended Opinion and Order to the Commission.

\* \* \* \* \*

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

# **FINDINGS OF FACT**

1. Pursuant to authority granted by the Commission in Decision No. 63584 (April 24, 2001), AZAM is an Arizona corporation which is engaged in the business of providing water and wastewater service to thousands of customers in various parts of Maricopa, Mohave and Santa Cruz Counties, Arizona<sup>1</sup>.

2. On August 20, 2002, AZAM, on behalf of its AFWD and DISTCO systems, filed an application to extend AFWD's and DISTCO's service areas under their Certificate to provide water and wastewater service to the areas which are marked Exhibit A and B, respectively, attached hereto and incorporated herein by reference. In a portion of its application, AZAM also requested approval to transfer a parcel from SCWWD's service area to that of AFWD, marked Exhibit C attached hereto and incorporated herein by reference.

3. Notice of the application was provided in accordance with the law.

4. On November 12, 2002, Staff filed its Staff Report recommending conditional approval for portions of the areas requested to be certificated by AZAM herein following a hearing. Staff also recommended approval of the parcel transfer.

<sup>1</sup> AZAM is a wholly owned subsidiary of American Water Works, Inc. which provides utility service to approximately 2.5 million customers in 22 states.

5. During the public comment session at the outset of the proceeding, Mr. Steven Borst, a MCESD program manager, appeared and commented that his department calculates that a total build-out, approximately 40,000 county residents, will live in the area sought to be certificated by AZAM. MCESD is encouraged by the fact that AZAM and the developers of large tracts of land within the area sought to be certificated herein are planning a "regional solution" which "is unique, and it is an example where I would hope that other areas of the county would follow suit." The MCESD supports AZAM's application in its entirety.

6. Representatives of three large home builders that control approximately one-sixth of the area sought to be certificated herein also appeared and voiced their support of the application.

7. With the instant application, AZAM is seeking Commission approval for an extension of its Certificate to add approximately 9 sections of land to AFWD's water service area and approximately 7 sections of land to DISTCO's sewer service area. The overlapping areas are located north of Sun City West, east of the City of Surprise and west of the City of Peoria and are described in Exhibits A and B, respectively. The application areas encompass property controlled by private parties, the Bureau of Land Management ("BLM"), State Trust land and Maricopa County ("County"). The largest single property owner in the areas sought to be certificated is the State of Arizona.

8. Based on the evidence, the requested extension areas as set forth in Exhibits A and B, respectively, are experiencing substantial developer interest due to the following: the development of the Lake Pleasant Recreation area; general population growth in the northwestern part of the County; and the accelerated construction of the State Route 303 Freeway between Grand Avenue and Lake Pleasant Road.

9. Developers in the area include Woodside Homes ("Woodside"), Del Webb Home Construction, Inc. ("Del Webb"), Grosvenor Holdings, L.L.C. ("Grosvenor") and William Lyon Homes ("Lyon"), all of which have assembled significant parcels of property and are proceeding to seek plat approval.

10. At the hearing, evidence was presented which established that Del Webb has already entered into a main extension agreement with AZAM for its 720-acre Pleasant Valley Country Club

1 ("PVCC") project. AZAM also announced that as of January 15, 2003, Woodside had also entered  
2 into an agreement with the utility in order to proceed with the development of its parcel.

3 11. Pursuant to the Commission's Rules, as main extension agreements are concluded  
4 with developers, they will be filed with the Commission for its approval.

5 12. Although Applicant had sought approval of a new non-potable water tariff in order to  
6 provide service to Del Webb's PVCC golf course, during the hearing, AZAM withdrew this portion  
7 of its application agreeing with Staff to provide non-potable water to that project under its existing  
8 non-potable water tariff, which complies with existing County ordinances which prohibit the use of  
9 ground water on new golf courses in the County.

10 13. With respect to extension of Applicant's Certificate to provide wastewater service to  
11 the areas encompassed in Exhibit B, Applicant provided evidence that it will use the existing Sun  
12 City West Wastewater Treatment Facility ("SCWWTF") to provide wastewater treatment. Current  
13 capacity of the SCWWTF is 3.14 million gallons per day ("MGD") and the existing plant will be  
14 expanded to 5.0 MGD in the near future and eventually will be expanded to handle 8 to 9 MGD at  
15 total build-out.

16 14. Besides the private developers that have or will seek service from AZAM, Applicant  
17 has also received a request for service from the Arizona State Land Department to include  
18 approximately four sections of State Trust land in the areas sought to be certificated herein due to the  
19 Department's projections for future growth in these areas.

20 15. Additionally, a 685-acre parcel located west of and adjacent to the areas sought to be  
21 certificated herein is in the process of development. Original plans called for it to be served by the  
22 Rancho Cabrillo Water and Sewer Companies ("Rancho Cabrillo"), which have no facilities. Rancho  
23 Cabrillo is presently conducting discussions with AZAM with respect to a possible transfer of its  
24 Certificates to AZAM in the near future so that AZAM can provide service to this parcel also.

25 16. On August 5, 2002, Del Webb entered into a main extension agreement with AZAM  
26 to finance the on-site utility facilities to serve its property. Under the terms of the Agreement, Del  
27 Webb will construct the first phase of the regional water facilities and regional wastewater collection  
28 facilities and convey them to AZAM.

1        17. Under Del Webb's agreement, estimates of its pro rata share of the regional water and  
2 wastewater collection facilities are \$683,882 and \$912,040, respectively. Cost estimates for both  
3 facilities exceed \$7 million and AZAM plans to allocate pro rata shares to eight other developers.

4        18. Under the terms of Del Webb's agreement with AZAM, costs not reimbursed by  
5 AZAM and costs associated with Del Webb's Ak-Chin Water Lease ("Lease"), will be considered  
6 contributions in aid of construction. This Lease is part of an earlier agreement related to Del Webb's  
7 Anthem project and although total Lease charges are expected to be \$12,270,600, Staff was unable to  
8 determine what portion of the water lease will be assigned to the PVCC project and will need to have  
9 the amount clarified within 365 days of the effective date of this Decision<sup>2</sup>.

10       19. Additionally, under the terms of the Del Webb agreement, AZAM will be paid \$1,150  
11 per Equivalent Residential Unit ("ERU") for potable water service and \$450 per ERU for wastewater  
12 treatment service by Del Webb as a Project Facilities Fee, a contractual fee, which is not classified as  
13 a tariff hook-up fee. AZAM will apply these funds towards the construction of regional backbone  
14 plant.

15       20. According to documentation from AZAM, water for the extension area will be  
16 supplied from wells and from connections with the City of Peoria. Between five and thirteen wells  
17 with a capacity of 1,000 gallons per minute ("GPM") will be developed in the extension area  
18 depending upon the amount of water the City of Peoria will provide to make up the difference  
19 between average and peak day demand.

20       21. AZAM projects that the ultimate water storage requirement will be 6.61 million  
21 gallons of water for the extension area.

22       22. To further support its application herein, AZAM offered evidence in the form of  
23 master plans for its regional water and wastewater systems which have been prepared by COE & Van  
24 Loo Engineers.

25 \_\_\_\_\_  
26 <sup>2</sup> Since AZAM does not have a designation from the Arizona Department of Water Resources ("ADWR") of  
27 having an assured water supply for the extension area, Del Webb is required to secure a Certificate of Assured Water  
28 Supply ("CAWS"). In order to develop the PVCC project and to insure a water supply, Del Webb, on June 27, 2001,  
signed an option and lease agreement with the AK-Chin Indian Community to provide Del Webb with an option to  
purchase 6,000 to 10,000 acre-feet of surface water per annum for 100 years, paying \$300,000 for the option to lease the  
right to deliver the required water.

1        23.    AZAM's director of engineering, Mr. Blaine Akine, indicated that AZAM has also  
2 received a signed guarantee of payment agreement for the facilities that will be needed to provide  
3 service to the Grosvenor parcel for its first phase of backbone plan, which was executed the day  
4 before the hearing. AZAM expects to conclude a development agreement with Lyon shortly.

5        24.    Lastly, with respect to the extension areas, AZAM has been in contact with the Cities  
6 of Surprise and Peoria and has received their support for its application herein and would not  
7 encroach into their planning areas if they requested AZAM not to do so.

8        25.    With respect to the transfer parcel, formerly known as the Cool Well Water Company  
9 ("Cool Well")<sup>3</sup>, it is a small stand alone water system which is currently serving 20 customers. The  
10 area is served by a 300 GPM well, a small storage tank, small pump, boosting station and distribution  
11 system. The 20 existing customers rely upon septic systems for their wastewater treatment.

12       26.    Because of Cool Well's location, AZAM is requesting the Commission approve the  
13 transfer of the Cool Well service area from where it is presently located in the SCWWD to its AFWD  
14 in order to interconnect its system and improve the system's redundancy and system reliability.

15       27.    The majority of the area sought to be transferred is vacant desert.

16       28.    Since the customers in the SCWWD service area have lower rates than Applicant's  
17 customers in the AFWD, AZAM is proposing that the 20 existing Cool Well customers continue to  
18 be charged under the lower rates and charges of the SCWWD when transferred rather than the higher  
19 rates of AFWD until such time as new customers purchase and move into the existing residences or  
20 new homes are built in the Cool Well area which would then fall under the current tariffs of the  
21 AFWD.

22       29.    AZAM maintains that the "grandfathering" of the SCWWD rates in the Cool Well  
23 area is in the best interests of its customers.

24       30.    With respect to the areas sought to be certificated herein, AZAM anticipates charging  
25 prospective customers in the areas in Exhibits A and B, its existing rates and charges.

26       31.    There are no other municipal or public service corporations providing water or  
27

28 <sup>3</sup> Cool Well was transferred to AZAM's predecessor, Citizens Utilities Company, by Commission Decision No. 56551 (July 3, 1989).



1 wastewater treatment service in the proposed service areas described in Exhibits A and B.

2 32. The proposed extension areas are outside of the city limits of any municipality in the  
3 area.

4 33. AZAM has indicated that it will file, within 365 days of the effective date of this  
5 Decision, the relevant franchise to be issued by the appropriate governmental agency for the areas  
6 certificated to it as a result of this proceeding.

7 34. With respect to the areas sought to be certificated herein as described in Exhibits A  
8 and B for water and wastewater utility service, respectively, Staff is recommending that the  
9 Commission approve an extension of AZAM's Certificate only for those areas for which it has  
10 reached signed agreements to provide service to a particular developer's parcel which, as of the date  
11 of the hearing, included only the Del Webb PVCC property, and the Woodside property. However,  
12 although there are no development/main extension agreements on the State Trust land, Staff is also  
13 recommending approval of the extension sought herein for the State Trust land.

14 35. According to Mr. Jim Fisher, a Staff consultant, while Staff supports a regional  
15 approach, Staff is following past Commission policy, which requires evidence of a request for service  
16 along with documentation such as a main extension agreement before it will recommend approval of  
17 a request for a Certificate extension. This is because of problems that have been encountered by the  
18 Commission over the years where areas were certificated to utility companies that never materialized  
19 or when development took place, the areas were left with an under funded developer owned utility  
20 with inadequate service.

21 36. While Staff did not oppose AZAM's proposal that the existing Cool Well system  
22 customers continue to be charged their existing rates and charges in the SCWWD area following the  
23 parcel's transfer to the AFWD service area, Staff is recommending that upon Commission approval  
24 in a general rate case of any new rates and charges for the AFWD service area, that these customers  
25 then be charged the prevailing rates and charges of that area and not be charged the rates of the  
26 SCWWD service area.

27 37. After reviewing the water production and storage capacity of AZAM and its  
28 wastewater treatment facilities together with Applicant's developmental capabilities, Staff believes

1 that AZAM has adequate facilities along with the technical and financial capacity to provide service  
2 in the requested extension areas as development takes place.

3 38. According to the Staff Report, AZAM is in full compliance with the rules of the  
4 Arizona Department of Environmental Quality ("ADEQ") and is providing water which meets the  
5 requirements of the Safe Drinking Water Act.

6 39. Staff also reports that AZAM is in compliance with the rules of ADWR for its AFDW  
7 service area which is located within the Phoenix Active Management Area.

8 40. With respect to the operation of AZAM's DISTCO wastewater treatment facilities,  
9 Staff found that it is in total compliance with the rules of operation, reporting and discharge limits of  
10 ADEQ or its designee.

11 41. AZAM is also in compliance in its operation of its water and wastewater systems with  
12 the Commission.

13 42. AZAM is current on the payment of its sales and property taxes.

14 43. Staff is recommending only partial approval of the extension application herein as set  
15 forth in Findings of Fact No. 34, subject to the following:

- 16 • that the extension be approved for the areas encompassed within Exhibits A and B for  
17 only the Del Webb property, the Woodside property, and the State Trust land;
- 18 • that the Commission order AZAM to file, within 365 days of the effective date of this  
19 Decision, with the Director of the Utilities Division, a copy of the requisite franchise  
20 for the extension areas approved hereinafter;
- 21 • that the Commission order AZAM to charge its existing rates and charges for water  
22 and wastewater treatment service in the extension areas as authorized hereinafter;
- 23 • that the Commission order AZAM to file, within 365 days of the effective date of this  
24 Decision, with the Director of the Commission's Utilities Division, a copy of the  
25 developers initial Certificate of Approval to Construct issued by ADEQ or its designee  
26 for water and wastewater facilities within the extension areas as authorized  
27 hereinafter;
- 28 • that the Commission order AZAM to file, within 365 days of the effective date of this  
Decision, with the Director of the Commission's Utilities Division, the allocable AK-  
CHIN/Del Webb Water Lease Agreement costs to be classified as a contribution with  
respect to the extension of water service approved hereinafter.

1  
2 44. With respect to Staff's recommendations for the Cool Well service area transfer, Staff  
3 recommends approval of this portion of the application and that the existing customers in the former  
4 Cool Well service area be charged the existing rates of SCWWD until such time as the Commission  
5 approves a change in the rates and charges of AFWD in a general rate case at which time all existing  
6 and future customers in the former Cool Well service area should be charged the authorized rates for  
7 AZAM's AFWD.

8 45. Under the circumstances herein, based on the evidence concerning the extension areas,  
9 we believe that the application of AZAM should be approved in its entirety with respect to the  
10 extension of Applicant's Certificate to provide water and wastewater service to the areas further  
11 described in Exhibits A and B as requested. The regional development of water and wastewater  
12 service proposed by Applicant and supported by the MCESD during this proceeding establishes that  
13 AZAM's approach is reasonable and should be adopted. Due to AZAM's regional approach, we  
14 shall not limit the extension of Applicant's Certificate as recommended by Staff. However, with  
15 respect to the remaining recommendations made by Staff concerning the extension areas, we believe  
16 that they are reasonable and should be adopted and that AZAM should comply with them as ordered  
17 hereinafter.

18 46. Lastly, we believe that Staff's recommendations with respect to the Cool Well system  
19 service area are reasonable and should be adopted as set forth in Findings of Fact No. 44.

#### 20 CONCLUSIONS OF LAW

21 1. AZAM is a public service corporation within the meaning of Article XV of the  
22 Arizona Constitution and A.R.S. §§ 40-281 and 40-282.

23 2. The Commission has jurisdiction over AZAM and the subject matter of the  
24 application.

25 3. Notice of application was provided in accordance with the law.

26 4. There is a public need and necessity for water and wastewater utility service in the  
27 proposed service area described in Exhibits A and B.

28 5. AZAM is a fit and proper entity to receive an extension of its Certificate for the areas

1 described in Exhibits A and B.

2 6. There is a public need and necessity for the Cool Well system to be transferred from  
3 SCWWD to AFWD as described in Exhibit C.

4 7. The application by AZAM to extend its Certificate for all of the areas described in  
5 Exhibits A and B should be granted as requested by Applicant subject to AZAM complying with the  
6 remaining conditions set forth in Findings of Fact No. 43 hereinabove.

7 8. AZAM should continue to charge its existing rates and charges in the extension areas  
8 described in Exhibits A and B until further Order by the Commission.

9 9. AZAM should continue to charge Cool Well system existing and future customers the  
10 existing rates and charges of SCWWD until such time as the Commission approves a change in the  
11 rates of AFWD in a general rate case after which these customers should be charged the authorized  
12 rates of AFWD.

13 **ORDER**

14 IT IS THEREFORE ORDERED that the application of Arizona-American Water Company  
15 on behalf of its Agua Fria Water District and Anthem/Agua Fria District for an amendment to its  
16 Certificate of Convenience and Necessity as requested for the operation of a water and wastewater  
17 utility for all of the areas more fully described in Exhibits A and B, respectively, attached hereto are  
18 hereby, approved provided that, within 365 days of the effective date of this Decision, Arizona-  
19 American Water Company complies with the remaining conditions as set forth in Findings of Fact  
20 No. 43 hereinabove.

21 IT IS FURTHER ORDERED that in the event that Arizona-American Water Company does  
22 not timely comply with a condition as set forth hereinabove in Findings of Fact No. 43 as required by  
23 the preceding Ordering paragraph, then the extension of its Certificate of Convenience and Necessity  
24 shall be deemed to be null and void for the areas described in Exhibits A and B attached hereto  
25 without further Order of the Arizona Corporation Commission.

26 IT IS FURTHER ORDERED that Arizona-American Water Company shall charge water and  
27 wastewater customers in the areas more fully described in Exhibits A and B attached hereto, the rates  
28 and charges previously authorized by the Commission until further Order of the Commission.

1 IT IS FURTHER ORDERED that the Cool Well service area described in Exhibit C shall be  
 2 transferred from the service area of Sun City West Water District to the Agua Fria Water District and  
 3 existing and future customers shall be charged the existing rates and charges of the Sun City West  
 4 Water District until the next general rate case of the Agua Fria Water District at which time those  
 5 customers shall be charged the authorized rates and charges of the Agua Fria Water District.

6 IT IS FURTHER ORDERED that groundwater shall not be used on golf courses in the  
 7 certificated area.

8 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

9  
 10 **BY ORDER OF THE ARIZONA CORPORATION COMMISSION**

11 

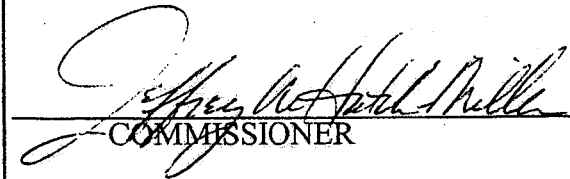
12 CHAIRMAN

11 \_\_\_\_\_

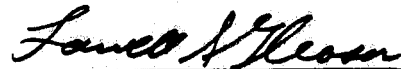
12 COMMISSIONER

11 \_\_\_\_\_

12 COMMISSIONER

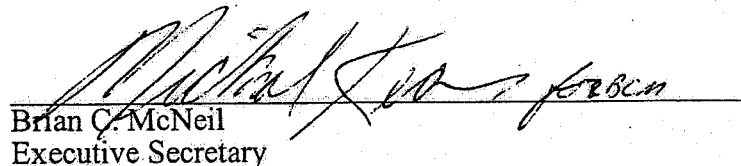
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15 COMMISSIONER

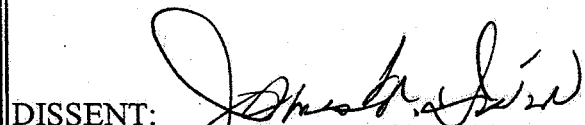
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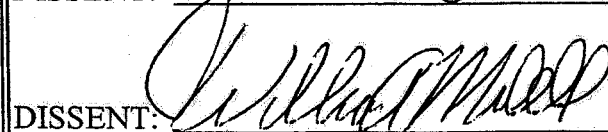
15 COMMISSIONER

16  
 17 IN WITNESS WHEREOF, I, BRIAN C. McNEIL,  
 18 Executive Secretary of the Arizona Corporation Commission,  
 19 have hereunto, set my hand and caused the official seal of this  
 20 Commission to be affixed at the Capitol, in the City of  
 21 Phoenix, this 26<sup>TH</sup> day of MARCH, 2003.

21 

22 Brian C. McNeil  
 23 Executive Secretary

24  
 25 DISSENT: 

26  
 27 DISSENT: 

28 MES:mlj

1 SERVICE LIST FOR:

ARIZONA-AMERICAN WATER COMPANY

2 DOCKET NO.

WS-01303A-02-0633

3 Norman D. James

4 Jay Shapiro

5 Fennemore Craig, P.C.

3003 North Central Avenue

Phoenix, AZ 85012-2913

6 Attorneys for Arizona-American Water Company

7 Christopher Kempley, Chief Counsel

Legal Division

8 ARIZONA CORPORATION COMMISSION

1200 West Washington Street

9 Phoenix, Arizona 85007

10 Ernest Johnson, Director

Utilities Division

11 ARIZONA CORPORATION COMMISSION

1200 West Washington Street

12 Phoenix, Arizona 85007

## EXHIBIT A

Legal Description  
Certificate of Convenience and Necessity  
Arizona-American Water Company, Agua Fria District  
Water Service Extension Area

Township 4 North, Range 1 West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona

All of Section 1;

All of Section 2;

The South half (S  $\frac{1}{2}$ ) of Section 10;

All of Section 11;

All of Section 12;

The North half (N  $\frac{1}{2}$ ) and the West half (W  $\frac{1}{2}$ ) of the Southwest Quarter (SW  $\frac{1}{4}$ ) and the Northeast Quarter (NE  $\frac{1}{4}$ ) of the Southeast Quarter (SE  $\frac{1}{4}$ ) of Section 13;

All of Section 14;

The East half (E  $\frac{1}{2}$ ) and the North half (N  $\frac{1}{2}$ ) of the Northwest Quarter (NW  $\frac{1}{4}$ ) of Section 15;

The South half (S  $\frac{1}{2}$ ) of the Southwest Quarter (SW  $\frac{1}{4}$ ) and the Northeast Quarter (NE  $\frac{1}{4}$ ) of the Southwest Quarter (SW  $\frac{1}{4}$ ) of Section 24;

The Northwest Quarter (NW  $\frac{1}{4}$ ) of Section 25;

Township 4 North, Range 1 East of the Gila and Salt River Base and Meridian, Maricopa County, Arizona

All of Section 6 EXCEPT the East half (E  $\frac{1}{2}$ ) of the East half (E  $\frac{1}{2}$ );

The West half (W  $\frac{1}{2}$ ) of Section 7;

The West half (W  $\frac{1}{2}$ ) of the West half (W  $\frac{1}{2}$ ) of Section 18.

DECISION NO. 65757

EXHIBIT B

Legal Description  
Certificate of Convenience and Necessity  
Arizona-American Water Company, Anthem/Agua Fria (DistCo) District  
Wastewater Service Extension

Township 4 North, Range 1 West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona

All of Section 1;  
All of Section 2;  
The South half (S  $\frac{1}{2}$ ) of Section 10;  
All of Section 11;  
All of Section 12;  
All of Section 13;  
All of Section 14;  
The East half (E  $\frac{1}{2}$ ) and the North half (N  $\frac{1}{2}$ ) of the Northwest Quarter (NW  $\frac{1}{4}$ ) of Section 15;  
All of Section 24 EXCEPT the Southeast Quarter (SE  $\frac{1}{4}$ ) of the Southeast Quarter (SE  $\frac{1}{4}$ ) and  
EXCEPT the Southeast Quarter (SE  $\frac{1}{4}$ ) of the Northeast Quarter (NE  $\frac{1}{4}$ ) of the Southeast  
Quarter (SE  $\frac{1}{4}$ ) and  
EXCEPT the Southeast Quarter (SE  $\frac{1}{4}$ ) of the Southwest Quarter (SW  $\frac{1}{4}$ ) of the Southeast  
Quarter (SE  $\frac{1}{4}$ );  
The Northwest Quarter (NW  $\frac{1}{4}$ ) of Section 25;

Township 4 North, Range 1 East of the Gila and Salt River Base and Meridian, Maricopa County, Arizona

All of Section 6 EXCEPT the East Half (E  $\frac{1}{2}$ ) of the East Half (E  $\frac{1}{2}$ );  
The West half (W  $\frac{1}{2}$ ) of Section 7;  
The West half (W  $\frac{1}{2}$ ) of the West half (W  $\frac{1}{2}$ ) of Section 18.



## EXHIBIT C

Legal Description  
Certificate of Convenience and Necessity  
Arizona-American Water Company, Agua Fria District  
Transfer Parcel from Sun City West Water Company

Township 4 North, Range 1 West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona

The East Half (E ½) of the Southwest Quarter (SW ¼) and all of the Southeast Quarter (SE ¼) of Section 13 EXCEPT the Northeast Quarter (NE ¼) of the Southeast Quarter (SE ¼);

The North Half (N ½) and the Northwest Quarter (NW ¼) of the Southwest Quarter (SW ¼) and all of the Southeast Quarter (SE ¼) of Section 24 EXCEPT the Southeast Quarter (SE ¼) of the Southeast Quarter (SE ¼) and EXCEPT the Southeast Quarter (SE ¼) of the Northeast Quarter (NE ¼) of the Southeast Quarter (SE ¼) and EXCEPT the Southeast Quarter (SE ¼) of the Southwest Quarter (SW ¼) of the Southeast Quarter (SE ¼).

H

Jane Dee Hull  
Governor

Michael E. Anable  
State Land  
Commissioner

# Arizona State Land Department

1616 West Adams Street Phoenix, AZ 85007 [www.land.state.az.us](http://www.land.state.az.us)



May 23, 2002

**RECEIVED**

**MAY 24 2002**

**ARIZONA/AMERICAN WATER**

Blaine Akine, P.E., Director of Engineering  
Arizona-American Water Company  
12425 W. Bell Road, Suite 306  
Surprise, AZ 85374

Dear Mr. Akine:

The Arizona State Land Department has been notified of your company's intention to expand its water and sewer certificated area by applying to the Arizona Corporation Commission to include Sections 01, 02, 11, 12, 13, 14, 24, 25 and 36 in Township 4 North, Range 1 West and Sections 06, 07 and 18 in Township 4 North, Range 1 East. State Trust land encompasses a portion of these sections. After considering comments from within the agency, it has been determined it is in the best interest of the State Trust lands to be included in a water and sewer service area.

If you have any questions, please contact Heide Kocsis at (602)542-2678.

Sincerely,

James L. Adams  
Deputy State Land Commissioner

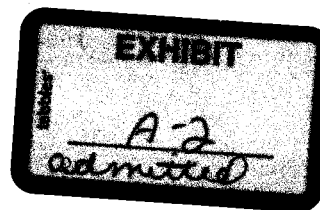
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AZ CORP COMMISSION  
DOCUMENT CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION

**MARC SPITZER**

Chairman

**WILLIAM MUNDELL**

Commissioner

**JEFF HATCH-MILLER**

Commissioner

**MIKE GLEASON**

Commissioner

**KRISTIN K. MAYES**

Commissioner

**IN THE MATTER OF THE JOINT  
APPLICATION OF RANCHO CABRILLO  
WATER COMPANY, RANCHO CABRILLO  
SEWER COMPANY, ARIZONA-AMERICAN  
WATER COMPANY, AGUA FRIA DISTRICT,  
AND ARIZONA-AMERICAN WATER  
COMPANY, ANTHEM/AGUA FRIA DISTRICT  
[DISTCO] FOR THE TRANSFER OF  
CERTIFICATES OF CONVENIENCE AND  
NECESSITY TO PROVIDE WATER AND  
WASTE WATER UTILITY SERVICES AND  
EXTENSION OF SERVICE AREA**

**DOCKET NOS.**

W-03898A-04-0089

SW-03898A-04-0089

W-01303A-04-0089

WS-01303A-04-0089

**AMENDMENT TO JOINT  
APPLICATION FOR TRANSFER  
OF CERTIFICATES OF  
CONVENIENCE & NECESSITY  
AND EXTENSION OF SERVICE  
TERRITORY**

GALLAGHER & KENNEDY, P.A.  
2575 E. CAMELBACK ROAD  
PHOENIX, ARIZONA 85016-9225  
(602) 530-8000

Under Ariz. Rev. Stat. §40-281, A.A.C. R14-2-402 and A.A.C. R14-2-602,

Arizona-American Water Company ("Arizona-American"), through its Agua Fria Water District ("AFWD") and through its Anthem/Agua Fria Wastewater District ("DistCo"), submits the following amendment to the Joint Application for Transfer of Certificates of Convenience & Necessity and Extension of Service Territory in this docket. Arizona-American requests the following amendment to its request for relief and application in this case. In the application, Arizona-American requested transfer of Rancho Cabrillo Water Company's CC&N to AFWD and transfer of Rancho-Cabrillo Sewer Company's CC&N to DistCo, respectively. In the alternative, Arizona-American also requests that the Commission (1) extend the existing service

1 territories of AFWD to provide service to the areas currently covered by the Rancho Cabrillo  
2 Water Company CC&N as set forth on exhibit C to the joint application; and, (2) extend the  
3 existing service territories of DistCo to provide service to the areas currently covered by the  
4 Rancho Cabrillo Sewer Company's CC&N as set forth on exhibit C to the joint application.

5 Specifically, in accordance with the Application, AFWD requests authorization  
6 to extend its existing certificated areas to provide water utility service to the areas covered by the  
7 existing CC&N for Rancho Cabrillo Water Company as forth on exhibit C to the joint  
8 application. Likewise, DistCo requests authorization to extend its existing certificated area to  
9 provide wastewater utility services to the areas covered by the CC&N for Rancho Cabrillo Sewer  
10 Company as set forth on exhibit C to the joint application. AFWD and DistCo submit this  
11 amended request in the event the Rancho Cabrillo Water Company and Ranch Cabrillo Sewer  
12 Company CC&Ns are invalid at the time of hearing. Ultimately, AFWD and DistCo request that  
13 the Commission grant the following relief in this docket:

14 A. Approval to transfer Rancho Cabrillo Water Company's Certificate of  
15 Convenience & Necessity as set forth on exhibit C for water utility services to Arizona-  
16 American, Aqua Fria Water District; and/or, alternatively in the event such CC&N is invalid at  
17 the time of hearing, authorization for Arizona-American, Aqua Fria Water District to extend its  
18 existing certificated areas to provide water utility services to the areas covered by Rancho-  
19 Cabrillo Water Company's CC&N as set forth on Exhibit C to the joint application;

20 B. Approval to transfer Rancho-Cabrillo Sewer Company's Certificate of  
21 Convenience & Necessity as set forth on Exhibit C for wastewater utility service to Arizona-  
22 American, Anthem/Agua Fria District; and/or, alternatively in the event such CC&N is invalid,  
24 authorization for Arizona-American, Anthem/Agua Fria Water District to extend its existing

1 certificated areas to provide wastewater utility services to the areas covered by Rancho-Cabrillo  
2 Sewer Company's CC&N as set forth on exhibit C to the joint application;

3 C. Authorization for Arizona-American, Agua Fria Water District to extend  
4 its existing certificated areas to provide water utility services to the areas of State land set forth  
5 on the maps and legal descriptions attached as exhibit F to the joint application; and

6 D. Authorization for Arizona-American, Anthem/Agua Fria Water District to  
7 extend its existing certificated areas to provide wastewater utility services to the areas of State  
8 land set forth on the maps and legal description attached as exhibit F to the joint application.

9 RESPECTFULLY SUBMITTED this 7<sup>th</sup> day of April, 2004.

10 GALLAGHER & KENNEDY, P.A.

11  
12 By

  
Todd C. Wiley

13 2575 East Camelback Road  
14 Phoenix, Arizona 85016-9225  
15 Attorneys for Arizona-American  
Water Company

16 **Original and thirteen** copies filed this  
7th day of April, 2004, with:

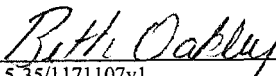
17 Docket Control  
18 Arizona Corporation Commission  
1200 West Washington  
19 Phoenix, Arizona 85007

20 COPIES of the foregoing hand-delivered  
this 7th day of April, 2004, to:

21 Hearing Division  
22 Arizona Corporation Commission  
1200 West Washington  
24 Phoenix, AZ 85007



1 Ernest Johnson  
Director of Utilities  
2 Arizona Corporation Commission  
1200 West Washington  
3 Phoenix, AZ 85007  
  
4 Chris Kempley  
Legal Division  
5 Arizona Corporation Commission  
1200 West Washington  
6 Phoenix, AZ 85007  
  
7 Mark Dioguardi  
Tiffany & Bosco  
8 1850 N. Central Avenue  
Phoenix, Arizona 85004-4546  
9 (602) 255-6000  
Attorneys for Ranch Cabrillo Water/Sewer Company

10   
11 15015-35/1171107v1

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13

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18

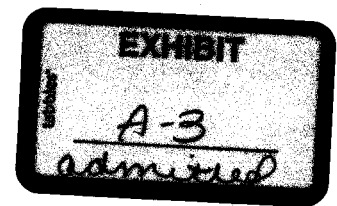
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22

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BEFORE THE ARIZONA CORPORATION COMMISSION

**MARC SPITZER**  
Chairman  
**WILLIAM MUNDELL**  
Commissioner  
**JEFF HATCH-MILLER**  
Commissioner  
**MIKE GLEASON**  
Commissioner  
**KRISTIN K. MAYES**  
Commissioner

AZ CORP COMMISSION  
DOCUMENT CONTROL

2004 APR 22 P 3:17

RECEIVED

IN THE MATTER OF THE JOINT  
APPLICATION OF RANCHO CABRILLO  
WATER COMPANY, RANCHO CABRILLO  
SEWER COMPANY, ARIZONA-AMERICAN  
WATER COMPANY, AGUA FRIA DISTRICT,  
AND ARIZONA-AMERICAN WATER  
COMPANY, ANTHEM/AGUA FRIA DISTRICT  
[DISTCO] FOR THE TRANSFER OF  
CERTIFICATES OF CONVENIENCE AND  
NECESSITY TO PROVIDE WATER AND  
WASTE WATER UTILITY SERVICES AND  
EXTENSION OF SERVICE AREA

DOCKET NOS.

W-03898A-04-0089  
SW-03898A-04-0089  
W-01303A-04-0089  
WS-01303A-04-0089

NOTICE OF PUBLICATION  
AND MAILING

In accordance with the February 24, 2004 Procedural Order, Arizona-American Water Company, through its Aqua Fria District and Anthem/Aqua Fria District, hereby files the attached (1) affidavit of publication certifying publication of the notice of hearing in the Arizona Republic on March 24, 2004; and, (2) a proof of mailing certifying mailing of the notice of hearing to Arizona-American's customers on April 12, 2004.

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//

//

Rancho  
Cabrillo

1 RESPECTFULLY SUBMITTED this 22<sup>th</sup> day of April, 2004.

2 GALLAGHER & KENNEDY, P.A.

3  
4 By 

Todd C. Wiley  
2575 East Camelback Road  
Phoenix, Arizona 85016-9225  
Attorneys for Arizona-American  
Water Company

5  
6  
7  
8 **Original and nineteen** copies filed this  
22th day of April, 2004, with:

9 Docket Control  
Arizona Corporation Commission  
10 1200 West Washington  
Phoenix, Arizona 85007

11 COPIES of the foregoing mailed  
12 this 22th day of April, 2004, to:

13 Hearing Division  
Arizona Corporation Commission  
14 1200 West Washington  
Phoenix, AZ 85007

15 Ernest Johnson  
16 Director of Utilities  
Arizona Corporation Commission  
17 1200 West Washington  
Phoenix, AZ 85007

18 Chris Kempley  
19 Legal Division  
Arizona Corporation Commission  
20 1200 West Washington  
Phoenix, AZ 85007  
21  
22  
24

1 Mark Dioguardi  
Tiffany & Bosco  
2 1850 N. Central Avenue  
Phoenix, Arizona 85004-4546  
3 (602) 255-6000  
Attorneys for Ranch Cabrillo Water/Sewer Company

4 *Beth Oakley*  
5 15015-35/1174094v1

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# THE ARIZONA REPUBLIC

STATE OF ARIZONA  
COUNTY OF MARICOPA } SS.

Sally Reede-Morris, being first duly sworn, upon oath deposes and says: That she is a legal advertising representative of the Arizona Business Gazette, a newspaper of general circulation in the county of Maricopa, State of Arizona, published at Phoenix, Arizona, by Phoenix Newspapers Inc., which also publishes The Arizona Republic, and that the copy hereto attached is a true copy of the advertisement published in the said paper on the dates as indicated.

The Arizona Republic/West Zone

March 24, 2004

Sworn to before me this  
24<sup>TH</sup> day of  
March A.D. 2004



*Sally Reede-Morris*

*Marilyn Greenwood*  
Notary Public

TER. COMPANY, RANCHO CABRILLO SEWER COMPANY AND ARIZONA-AMERICAN WATER COMPANY FOR THE TRANSFER OF THE RANCHO CABRILLO CERTIFICATES OF CONVENIENCE AND NECESSITY TO ARIZONA-AMERICAN WATER COMPANY AND FOR THE EXTENSION OF ARIZONA-AMERICAN'S SERVICE TERRITORY UNDER ITS EXISTING CERTIFICATES OF CONVENIENCE AND NECESSITY.

On February 6, 2004, Rancho Cabrillo Water Company, Rancho Cabrillo Sewer Company, Arizona-American Water Company, Agua Fria Water District and Arizona-American Company, Anthony/Agua Fria Wastewater District (collectively, "Applicants") jointly filed with the Arizona Corporation Commission ("Commission") an application to transfer Rancho Cabrillo Water Company and Rancho Cabrillo Sewer Company's Certificates of Convenience and Necessity ("CC&N") to Arizona-American and for the extension of Arizona-American's service territory under its existing Certificates of Convenience and Necessity in Docket Nos. W-03898A-04-0089, W-01303A-04-0089 and W-01303A-04-0089. If the Commission approves the application, Arizona-American will be the exclusive provider of water and wastewater utility service to the proposed areas, and will be required by the Commission to provide service under rates and charges and terms and conditions established by the Commission. The application is available for inspection during regular business hours at the offices of the Commission in Phoenix, at 1200 West Washington Street, Phoenix, Arizona, and at the offices of Applicants, 19820 N. 7th Street, Suite 201, Phoenix, Arizona.

The Commission will hold a hearing on this matter beginning May 20, 2004, at 9:00 a.m., at the Commission's offices, 1200 West Washington Street, Phoenix, Arizona. Public comment will be taken on the first day of the hearing.

The law provides for an open public hearing at which, under appropriate circumstances, interested persons may intervene in the proceedings and participate as a party. You may have the right to intervene in the proceeding. Intervention shall be in accordance with A.A.C. R14-3-405, except that all motions to intervene must be filed on or before May 6, 2004. Persons desiring to intervene must file a written motion to intervene with the Commission and send such motion to Applicants or their counsel and to all parties of record. The motion shall, at the minimum, contain the following:

1. The name, address, and telephone number of the proposed intervenor and any party upon whom service of documents is to be made if different from the intervenor.
2. A short statement of the proposed intervenor's interest in the proceeding (e.g., a customer or potential customer of Applicants, a shareholder of Applicants, etc.).
3. A statement certifying that a copy of the motion to intervene has been mailed to Applicants or their counsel and to all parties of record in the case.

The granting of intervention, among other things, entitles a party to present sworn evidence at the hearing and to cross-examine other witnesses. However, failure to intervene will not preclude any interested person or entity from appearing at the hearing and providing public comment on the application. You will not receive any further notice of this proceeding unless you request it.

If you have any questions about this application, or want further information on intervention, you may contact the Consumer Services Section of the Commission at 1200 West Washington Street, Phoenix, Arizona 85007 or call 1-800-222-7000. The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation such as a sign language interpreter, as well as request this document in an alternative format, by contacting Yvonne McFarlin, ADA Coordinator, voice phone number 602/542-3931, E-mail yvmcfarlin@cc.state.az.us. Requests should be made as early as possible to allow time to arrange the accommodation.

04145-March 24, 2004

United States Postal Service

# Postage Statement — Standard Mail Letters and Flats

## Permit Imprint

Post Office: Note Mail Arrival Time

For letters subject to the nonmachinable surcharge and pieces subject to the residual shape surcharge, use Form 3602-RS.

Mailer Information	Permit Holder's Name and Address, and Email Address If Any  SERVICE MAILERS, INC. 3101 EXPOSITION PL. POST OFFICE BOX 18A40 LOS ANGELES CA 90018	Telephone (323) 292-0133	Name and Address of Mailing Agent (if other than permit holder)  Service Mailers Inc. 3101 Exposition Place Los Angeles, CA 90018	Telephone (323)-292 0133	Name and Address of Individual or Organization for Which Mailing Is Prepared (if other than permit holder)  ARIZONA AMERICAN WATER (Dan Siwulec) 15626 N. DEL WEBB BLVD. SUN CITY, AZ 85351
	CAPS Cust. Ref. ID _____ Dun & Bradstreet No. _____		Dun & Bradstreet No. _____		Dun & Bradstreet No. _____

Mailing Information	Post Office of Mailing POSTMASTER LOS ANGELES	Processing Category (DMM C050) <input checked="" type="checkbox"/> Letters <input type="checkbox"/> Flats <input type="checkbox"/> Automation Flats (DMM C020)	Mailing Date 04/12/04	Federal Agency Cost Code 45338	Statement Seq. No. 45338	Number of Containers 1111-8
	Permit No. 1831		Weight of a Single Piece 0 0 3 0 0 pound	Total Pieces 22,007	Total Weight 660.21	1111-8 Jenn-89 skips-1
Postage Computation (DMM P013)	For Mail Enclosed Within Another Class <input type="checkbox"/> Periodicals <input type="checkbox"/> Bound Printed Matter <input type="checkbox"/> Library Mail <input type="checkbox"/> Media Mail <input type="checkbox"/> Parcel Post		If Sacked, Based on <input checked="" type="checkbox"/> 125 pcs. <input type="checkbox"/> 15 lbs. <input type="checkbox"/> both			
	For Automation Rate Pieces, Enter Date of Address Matching and Coding (DMM A950.3.0) 0 4 / 0 5 / 2 0 0 4		For Enhanced Carrier Route Rate Pieces, Enter Date of Address Matching and Coding (DMM A950.3.0) / /		For Enhanced Carrier Route Rate Pieces, Enter Date of Carrier Route Sequencing (DMM M050.4.0) / /	

Postage Computation (DMM P013)	For Automation Letters and Flats (3.3 oz. or less)	Total From Part A (On reverse)	3,679.912
	For Presorted Letters and Flats (3.3 oz. or less)	Total From Part B (On reverse)	55.910
	For Enhanced Carrier Route Letters and Flats (3.3 oz. or less)	Total From Part C (On reverse)	0.000
	For All Letters and Flats More Than 3.3 oz.	Total From Part D (On reverse)	0.000
	Postmaster: Report total postage in AIC 130.	Total Postage (Add lines above) →	3,735.82
	For USPS Use Only: Additional Postage Payment (State reason)		
Certification	Postmaster: Report total adjusted postage in AIC 130.		
	Total Adjusted Postage (Add additional postage to total postage) →		

USPS Use Only	The mailer's signature certifies acceptance of liability for and agreement to pay any revenue deficiencies assessed on this mailing, subject to appeal. If an agent signs this form, the agent certifies that he or she is authorized to sign on behalf of the mailer, and that the mailer is bound by the certification and agrees to pay any deficiencies. In addition, agents may be liable for any deficiencies resulting from matters within their responsibility, knowledge, or control.			
	The mailer hereby certifies that all information furnished on this form is accurate, truthful, and complete; that the mail and the supporting documentation comply with all postal standards and that the mailing qualifies for the rates and fees claimed; and that the mailing does not contain any matter prohibited by law or postal regulation.			
	I understand that anyone who furnishes false or misleading information on this form or who omits information requested on this form may be subject to criminal and/or civil penalties, including fines and imprisonment.			
	Signature of Mailer or Agent 611686-M [Signature]	Name of Mailer or Agent Service Mailers, Inc	Telephone (323)-292 0133	
	Weight of a Single Piece 0 pound	Are figures at left adjusted from mailer's entries? <input type="checkbox"/> Yes <input type="checkbox"/> No If "Yes," Reason		
	Total Pieces Total Weight Total Postage			
USPS Use Only	Check One <input type="checkbox"/> Presort Verification Not Scheduled <input type="checkbox"/> Presort Verification Performed as Scheduled	Date Mailer Notified	Contact	By (Initials)
	I CERTIFY that this mailing has been inspected concerning: (1) eligibility for postage rates claimed; (2) proper preparation (and presort where required); (3) proper completion of postage statement; and (4) payment of required annual fee.			
	Verifying Employee's Signature	Verifying Employee's Name	Time AM PM	

# Standard Mail Letters and Flats — Permit Imprint

Entry Discount	Presort / Automation Discount	Rate	Number of Pieces	Total
<b>A</b> Automation Rates — Letters and Flats 3.3 oz. (0.2063 lb.) or Less				
None	A1. 5-Digit Letter	.190 x	pcs. = \$	
	A2. 3-Digit Letter	.203 x	pcs. = \$	
	A3. AADC Letter	.212 x	162 pcs. = \$	34.344
	A4. Mixed AADC Letter	.219 x	1,707 pcs. = \$	373.833
	A5. 3/5 Flat	.261 x	pcs. = \$	
	A6. Basic Flat	.300 x	pcs. = \$	
DBMC	A7. 5-Digit Letter	.169 x	pcs. = \$	
	A8. 3-Digit Letter	.182 x	pcs. = \$	
	A9. AADC Letter	.191 x	pcs. = \$	
	A10. Mixed AADC Letter	.198 x	pcs. = \$	
	A11. 3/5 Flat	.240 x	pcs. = \$	
	A12. Basic Flat	.279 x	pcs. = \$	
DSCF	A13. 5-Digit Letter	.164 x	19,409 pcs. = \$	3,183.076
	A14. 3-Digit Letter	.177 x	255 pcs. = \$	45.135
	A15. AADC Letter	.186 x	234 pcs. = \$	43.524
	A16. 3/5 Flat	.235 x	pcs. = \$	
	A17. Basic Flat	.274 x	pcs. = \$	

Total — Part A (Carry to front of form) \$ 3,679.912

<b>C</b> ECR Rates — Letters and Flats 3.3 oz. (0.2063 lb.) or Less				
None	C1. Saturation Letter	.152 x	pcs. = \$	
	C2. High Density Letter	.164 x	pcs. = \$	
	C3. Basic Letter	.194 x	pcs. = \$	
	C4. Basic Auto. Letter	.171 x	pcs. = \$	
	C5. Saturation Flat	.160 x	pcs. = \$	
	C6. High Density Flat	.169 x	pcs. = \$	
	C7. Basic Flat	.194 x	pcs. = \$	
DBMC	C8. Saturation Letter	.131 x	pcs. = \$	
	C9. High Density Letter	.143 x	pcs. = \$	
	C10. Basic Letter	.173 x	pcs. = \$	
	C11. Basic Auto. Letter	.150 x	pcs. = \$	
	C12. Saturation Flat	.139 x	pcs. = \$	
	C13. High Density Flat	.148 x	pcs. = \$	
	C14. Basic Flat	.173 x	pcs. = \$	
DSCF	C15. Saturation Letter	.126 x	pcs. = \$	
	C16. High Density Letter	.138 x	pcs. = \$	
	C17. Basic Letter	.168 x	pcs. = \$	
	C18. Basic Auto. Letter	.145 x	pcs. = \$	
	C19. Saturation Flat	.134 x	pcs. = \$	
	C20. High Density Flat	.143 x	pcs. = \$	
	C21. Basic Flat	.168 x	pcs. = \$	
DDU	C22. Saturation Letter	.120 x	pcs. = \$	
	C23. High Density Letter	.132 x	pcs. = \$	
	C24. Basic Letter	.162 x	pcs. = \$	
	C25. Basic Auto. Letter	.139 x	pcs. = \$	
	C26. Saturation Flat	.128 x	pcs. = \$	
	C27. High Density Flat	.137 x	pcs. = \$	
	C28. Basic Flat	.162 x	pcs. = \$	

Total — Part C (Carry to front of form) \$ 0.000

Entry Discount	Presort / Automation Discount	Rate	Number of Pieces / Pounds	Total
<b>B</b> Presorted Rates — Letters and Flats 3.3 oz. (0.2063 lb.) or Less				
None	B1. 3/5 Letter	.248 x	pcs. = \$	
	B2. Basic Letter	.268 x	35 pcs. = \$	9.380
	B3. 3/5 Flat	.288 x	pcs. = \$	
	B4. Basic Flat	.344 x	pcs. = \$	
DBMC	B5. 3/5 Letter	.227 x	pcs. = \$	
	B6. Basic Letter	.247 x	pcs. = \$	
	B7. 3/5 Flat	.267 x	pcs. = \$	
	B8. Basic Flat	.323 x	pcs. = \$	
DSCF	B9. 3/5 Letter	.222 x	154 pcs. = \$	34.188
	B10. Basic Letter	.242 x	51 pcs. = \$	12.342
	B11. 3/5 Flat	.262 x	pcs. = \$	
	B12. Basic Flat	.318 x	pcs. = \$	

Total — Part B (Carry to front of form) \$ 55.910

<b>D</b> All Letters and Flats More Than 3.3 oz. (0.2063 lb.)				
None	D1. Saturation ECR	.034 x	pcs. = \$	
	plus	.610 x	lbs. = \$	
	D2. High Density ECR	.043 x	pcs. = \$	
	plus	.610 x	lbs. = \$	
	D3. Basic ECR	.068 x	pcs. = \$	
	plus	.610 x	lbs. = \$	
	D4. 3/5 Automation	.115 x	pcs. = \$	
	plus	.708 x	lbs. = \$	
	D5. Basic Automation	.154 x	pcs. = \$	
	plus	.708 x	lbs. = \$	
	D6. 3/5 Presorted	.142 x	pcs. = \$	
	plus	.708 x	lbs. = \$	
	D7. Basic Presorted	.198 x	pcs. = \$	
	plus	.708 x	lbs. = \$	
DBMC	D8. Saturation ECR	.034 x	pcs. = \$	
	plus	.510 x	lbs. = \$	
	D9. High Density ECR	.043 x	pcs. = \$	
	plus	.510 x	lbs. = \$	
	D10. Basic ECR	.068 x	pcs. = \$	
	plus	.510 x	lbs. = \$	
	D11. 3/5 Automation	.115 x	pcs. = \$	
	plus	.608 x	lbs. = \$	
	D12. Basic Automation	.154 x	pcs. = \$	
	plus	.608 x	lbs. = \$	
	D13. 3/5 Presorted	.142 x	pcs. = \$	
	plus	.608 x	lbs. = \$	
	D14. Basic Presorted	.198 x	pcs. = \$	
	plus	.608 x	lbs. = \$	
DSCF	D15. Saturation ECR	.034 x	pcs. = \$	
	plus	.485 x	lbs. = \$	
	D16. High Density ECR	.043 x	pcs. = \$	
	plus	.485 x	lbs. = \$	
	D17. Basic ECR	.068 x	pcs. = \$	
	plus	.485 x	lbs. = \$	
	D18. 3/5 Automation	.115 x	pcs. = \$	
	plus	.583 x	lbs. = \$	
	D19. Basic Automation	.154 x	pcs. = \$	
	plus	.583 x	lbs. = \$	
	D20. 3/5 Presorted	.142 x	pcs. = \$	
	plus	.583 x	lbs. = \$	
	D21. Basic Presorted	.198 x	pcs. = \$	
	plus	.583 x	lbs. = \$	
DDU	D22. Saturation ECR	.034 x	pcs. = \$	
	plus	.453 x	lbs. = \$	
	D23. High Density ECR	.043 x	pcs. = \$	
	plus	.453 x	lbs. = \$	
	D24. Basic ECR	.068 x	pcs. = \$	
	plus	.453 x	lbs. = \$	

Total — Part D (Carry to front of form) \$ 0.000

LEGAL

MEMORANDUM

RECEIVED

2004 APR 29 A 8:20

AZ CORP COMMISSION  
DOCUMENT CONTROL

TO: Docket Control  
Arizona Corporation Commission

FROM: Ernest G. Johnson  
Director  
Utilities Division

Date: April 29, 2004

RE: RANCHO CABRILLO WATER COMPANY, RANCHO CABRILLO SEWER  
COMPANY- APPLICATION FOR A TRANSFER OF ITS CERTIFICATE OF  
CONVENIENCE AND NECESSITY ("CC&N") TO ARIZONA AMERICAN  
WATER COMPANY AND ARIZONA AMERICAN WATER COMPANY-  
APPLICATION TO EXTEND ITS CC&N IN MARICOPA COUNTY,  
ARIZONA DOCKET NOS. W-01303A-04-0089, WS-01303A-04-0089, W-  
03898A-04-0089 AND ~~WS~~-03898A-04-0089

SW

Attached is the Staff Report for the above referenced applications. Staff is  
recommending approval with conditions.

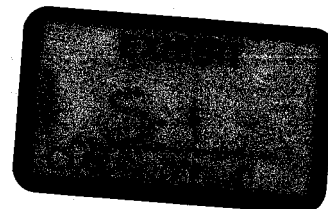
EGJ:JEF:hml

Originator: Jim Fisher

RECEIVED

APR 29 2004

LEGAL DIV.  
ARIZ. CORPORATION COMMISSION





Service List for: Arizona American Water Company, Rancho Cabrillo Water Company, and  
Rancho Cabrillo Sewer Company  
Docket Nos. W-01303A-04-0089, WS-01303A-04-0089, W-03898A-04-0089, and WS-03898A-  
04-0089

Mr. Todd C. Wiley  
Gallagher & Kenedy, PA  
2575 East Camelback Road  
Phoenix, Arizona 85016

Mr. Blaine Akine  
Director of Engineering  
Arizona-American Water Company  
19820 North 7<sup>th</sup> Street, Suite 201  
Phoenix, Arizona

Mr. Steve Robson  
Rancho Cabrillo Water/Sewer Company  
9532 East Riggs Road  
Sun Lakes, Arizona 85248

Mr. Ernest G. Johnson  
Director, Utilities Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Mr. Christopher C. Kempley  
Chief, Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Ms. Lyn Farmer  
Chief, Hearing Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION

RANCHO CABRILLO WATER COMPANY  
RANCHO CABRILLO SEWER COMPANY  
ARIZONA AMERICAN WATER COMPANY

DOCKET NOS.  
W-01303A-04-0089  
WS-01303A-04-0089  
W-03898A-04-0089  
WS-03898A-04-0089

APPLICATION TO TRANSFER THEIR CERTIFICATES OF  
CONVENIENCE AND NECESSITY IN MARICOPA  
COUNTY, ARIZONA

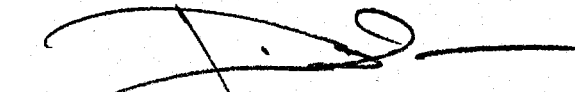
APPLICATION FOR AN EXTENSION OF ITS CERTIFICATE  
OF CONVENIENCE AND NECESSITY TO PROVIDE  
WATER AND WASTEWATER SERVICE

April 2004

## STAFF ACKNOWLEDGEMENT

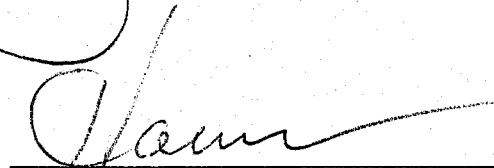
The Staff Report for Ranch Cabrillo Water Company, Rancho Cabrillo Sewer Company, and Arizona American Water Company (Docket Nos. W-01303A-04-0089, WS-01303A-04-0089, W-03898A-04-0089, and WS-03898A-04-0089) was the responsibility of the Staff members listed below. Jim Fisher was responsible for the review and analyses of the Companies' applications. Lyndon Hammon was responsible for the engineering and technical analysis.

Contributing Staff:



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Jim Fisher  
Executive Consultant



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Lyndon Hammon  
Utilities Engineer

**EXECUTIVE SUMMARY**  
**ARIZONA AMERICAN WATER COMPANY**  
**RANCHO CABRILLO WATER AND SEWER COMPANY**  
**DOCKET NO. W-01303A-04-0089 ET.AL.**

On February 6, 2004, Rancho Cabrillo Water Company ("RC Water"), Rancho Cabrillo Sewer Company ("RC Sewer") and Arizona American Water Company ("Az-Am Water" or "Company") (collectively "Joint Applicants") filed a joint application with the Arizona Corporation Commission ("ACC") requesting approval for a transfer of its Certificates of Convenience and Necessity ("CC&N") in Maricopa County, Arizona.

RC Water and RC Sewer are Arizona corporations authorized to provide water and wastewater service to a portion of Maricopa County by virtue of Commission Decision Nos. 63592 (April 24, 2001) and 63658 (May 4, 2001). Both utilities were provided until 2004 to evidence the requirements from the Commission's initial decisions. Both CC&N's will be void by operation of law prior to the scheduled hearing in this matter. On April 7, 2004, Az-Am Water filed an amendment to the joint application to request an extension of Az-Am Water's CC&N to include the area presently certificated to RC Water and RC Sewer.

Az-Am Water is an Arizona corporation engaged in providing water and wastewater utility service to approximately 115,000 customers within portions of Maricopa, Mohave, and Santa Cruz Counties Arizona.

By this application, Az-Am Water, RC Water and RC Sewer are requesting Commission authority to extend the CC&N of Az-Am Water to include all of the territory currently certificated to RC Water and RC Sewer.

Staff recommends approval of the application with conditions:

1. That the Commission require the Arizona American Water Company to charge its existing rates and charges in the proposed extension area.
2. That the Commission require the Arizona American Water Company to file, with the Director of the Utilities Division, the Arizona Department of Environmental Quality approvals for construction of all water facilities, with the appropriate main extension agreement, within 365 days from the effective date of the Commission's Decision.
3. That the Commission require the Arizona American Water Company to file, with the Director of the Utilities Division, a copy of the Arizona Department of Water Resources Certificate of Assured Water Supply for the proposed development within 365 days from the effective date of the Commission's Decision.
4. That the Commission's decision granting this extension to a Certificate of Convenience and Necessity to the Arizona American Water Company be considered null and void,

without further order from the Commission, should Arizona America Water Company fail to comply with conditions 2 and 3 within the time specified.

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## **Introduction**

On February 6, 2004, Rancho Cabrillo Water Company ("RC Water"), Rancho Cabrillo Sewer Company ("RC Sewer") and Arizona American Water Company ("Az-Am Water" or "Company") (collectively "Joint Applicants") filed a joint application with the Arizona Corporation Commission ("ACC") requesting approval for a transfer of its Certificate of Convenience and Necessity ("CC&N") in Maricopa County, Arizona.

On February 24, 2004, Staff notified the joint applicants that the application was sufficient according to the Arizona Administrative Code.

On April 5, 2004, Staff contacted the Joint Applicants and informed them of Staff's concern that granting the requested relief would result in the transfer of void CC&N's. On April 5, 2004, RC Sewer and RC Water hand delivered requests for extension of time to comply with the original Commission decisions.

On April 7, 2004, Az-Am Water filed an amendment to the joint application to request an extension of Az-Am Water's CC&N to include the area presently certificated to RC Water and RC Sewer.

## **Background**

RC Water and RC Sewer are Arizona corporations authorized to provide water and wastewater service to a portion of Maricopa County by virtue of Commission Decision Nos. 63592 (April 24, 2001) and 63658 (May 4, 2001). The Commission authorized RC Water and RC Sewer CC&N's to serve a proposed development of approximately 2,500 homes located 10 miles west of I-17, near Happy Valley Road.

Az-Am Water is an Arizona corporation engaged in providing water and wastewater utility service to customers within portions of Maricopa, Mohave, and Santa Cruz Counties Arizona. The Company is a wholly-owned subsidiary of American Water Works Company, Inc. ("American Water") which is in turn owned by RWE Thames Water. American Water provides utility service to approximately 20 million customers in 28 states. Az-Am Water obtained the assets and CC&N of Citizens Communications in Decision No. 63584 and serves approximately 115,000 customers in Arizona.

By this application, RC Water and RC Sewer are seeking Commission authorization to transfer their CC&N's to Az-Am Water. In addition, Az-Am Water is seeking Commission authority to extend its CC&N to include undeveloped properties adjacent to and north of its current service territory.

The proposed transfer/extension territory will add approximately 960 acres to its existing certificated area. The new area will include all of Section 3 and the north half of Section 10 in

Range 1 West, Township 4 North. The proposed transfer extension area is bounded by Az-Am Water's CC&N on the south and on the east.

In Decision No. 65757 (March 27, 2003), the Commission authorized Az-Am Water to extend its service territory to include properties adjacent to the RC Water and RC Sewer CC&N's. In association with the substantial requests for service in that application, Az-Am Water completed water and wastewater master plans for the requested property and the Rancho Cabrillo properties.

Subsequent to the Commission authorizing Az-Am Water to serve the surrounding properties, RC Development began discussions on the possibility of Az-Am Water serving the Rancho Cabrillo. On January 23, 2004, Az-Am Water and RC Development signed an agreement to prescribe the terms and conditions of extending service to include Rancho Cabrillo and transfer the RC Water and RC Sewer CC&N's to Az-Am Water.

### **The Proposed CC&N Transfer**

RC Water and RC Sewer were provided CC&N's to provide water and wastewater service to Rancho Cabrillo, a 685 acre development in the northwest valley, adjacent to Az-Am Water's current service area. Neither RC Water, nor RC Sewer has constructed any utility facilities to serve the authorized CC&N since obtaining Commission approval in 2001.

In Decision No. 63658 (May 4, 2001), the Commission authorized RC Sewer a conditional CC&N and required it to file a Certificate of Approval to Construct ("ATC") issued by the Arizona Department of Environmental Quality ("ADEQ") by May 4, 2002 or the CC&N would be null and void without further action of the Commission.

In Decision No. 63592 (April 24, 2001), the Commission authorized RC Water a conditional CC&N and required a copy of the developer's Certificate of Assured Water Supply issued by the Arizona Department of Water Resources ("ADWR") by April 24, 2002 or the CC&N would be null and void without further action of the Commission.

On December 6, 2001, a Procedural Order was issued which granted RC Sewer an extension of time in which to file its ATC to May 5, 2004. On February 12, 2002, a Procedural Order was issued which granted RC Water an extension of time in which to file its Certificate of Assured Water Supply to April 24, 2004.

On April 5, 2004, Staff informed the Joint Applicants that the RC Water and RC Sewer CC&N's would be void by the terms of the Commission's decision and transfer of a void CC&N would be of no value to the Joint Applicants. Az-Am Water informed Staff they would amend the application to request an extension of Az-Am's CC&N to include the area presently certificated to RC Water and RC Sewer. On April 5, 2004, RC Water and RC Sewer hand-delivered requests for a one year extension of time to comply with Commission decisions.



RC Water and RC Sewer have been provided an exceptional period of time in which to comply with the initial requirements of the Commission's decisions. In the event the Commission was willing to provide them with yet additional time to comply, granting the extension of time request would merely facilitate the transfer of conditional CC&Ns to another utility, which would require additional documentation. Staff believes that is an unduly cumbersome process and is confident that extending the CC&N of Az-Am Water to include the area presently certificated to RC Water and RC Sewer will obtain the goals of the Joint Applicants.

### **Facilities Agreement**

On January 23, 2004, Az-Am Water, RC Development, RC Water and RC Sewer entered into a facilities construction and service agreement to finance the off-site and on-site utility facilities to serve the property. According to Section 4.1 of the Agreement, RC Development will construct all phases of the On-Site Subdivision Facilities, the Phase IV Regional Water and Wastewater Facilities. In addition RC Development is required to convey two (2) On-Site Water Wells for potable water requirements.

According to Exhibit C of the Agreement, Az-Am Water estimates that RC Development's On-Site Wastewater Collection Facilities to be \$3,010,000. Az-Am Water estimates that RC Development's On-Site Water Facilities to be \$3,440,000.

According to Exhibit E of the Agreement, Az-Am Water estimates that RC Development's pro rata share of water and wastewater off-site common facilities are \$2,441,304 and \$3,070,259 respectively. According to the same exhibit, Az-Am Water estimates total off-site facilities to be \$7,675,433 for water and \$7,945,628 for wastewater.

According to the terms of the agreement, RC Development executed an Escrow Agreement in which \$2,500,000 to ensure payments are available to Az-Am Water.

### **Az-Am Water's Project Facilities Fee**

According to Section 4.10 of the agreement, RC Development is required to pay \$1,500 per Equivalent Residential Unit ("ERU") for Potable Water Services and \$750 per ERU for Wastewater Services for a Project Facilities Fee, which for all intents and purposes is a contractual, not tariffed hook-up fee. RC Development is required to provide Az-Am Water one payment of the Project Facilities Fee for all ERU's in a phase, or unit of a subdivision. Az-Am Water will use the Project Facilities Fee solely to fund construction of all phases of the Regional Water and Wastewater Facilities

The developer is required to construct the facilities in strict conformance with the approved plans and guidelines of applicable public agencies, including ADEQ and the ACC.

### **Refunds to RC Development**

According to Exhibit D of the Agreement, Az-Am Water will provide water refunds of \$800 per ERU taking permanent potable water service, calculated every six months. For those meter connections subject to a Main Extension Agreement with a particular builder, Az-Am Water will provide RC Development with water refunds of \$400 per ERU taking permanent potable water service, calculated every six months.

In addition, Az-Am Water shall provide RC Development with refunds of \$200 per ERU, taking permanent wastewater service, calculated every six months. In addition, Az-Am Water shall provide RC Development refunds equal to 10 percent of the revenue derived from the provision of wastewater services for each 12 month period.

### **Az-Am Water Facilities**

In Docket No. W-1303A-02-0633, Az-Am Water anticipated the inclusion of Rancho Cabrillo as a service area due to the operational and financial advantages of a master planned regional water and wastewater utility. Therefore, Rancho Cabrillo and the remaining uncertificated service territory in requested property were included in the planning documents. The specific documents which addressed the water and sewer system capacities and infrastructure needs, were the "Agua Fria Sewer Master Plan" and the "Agua Fria Water Master Plan," prepared by Coe & Van Loo Consulting Engineers and dated, July 10, 2002.

The water master plan enumerated the existing and potential development in the study area, described the type of future development, and estimated the potential water demand. The plan then developed a computerized model for water distribution, allocated water demands throughout the planning area, and determined storage needs, pumping needs, and water production needs. New well locations were identified. The requested certificated area in this application was included in the master plan.

The wastewater master plan also enumerated the existing and potential development in the study area, described the type of future developments, and estimated the volume of wastewater generation. Major interceptors for sewage collection and major sewage pumping stations were located and sized. Rancho Cabrillo and the remaining uncertificated area were included in the master plan document.

Wastewater flow will be sent to the Sun City West Wastewater Reclamation Plant. The Sun City West plant has a capacity of 3.14 million gallons per day ("MGD") and has experienced peaks of 2.8 MGD. Az-Am Water is presently expanding the treatment capacity to 5.0 MGD, and anticipates expanding the wastewater treatment plant ultimately to 10.0 MGD. The current expansion project is expected to be completed by summer 2004. Although the site has room for additional capacity, expansion plans beyond 10.0 MGD are too far in advance to be finalized.

Utilities Division Staff concludes that the proposed water and wastewater systems will have adequate production and storage capacity and adequate sewage treatment capacity, to serve the proposed CC&N extension area, or can reasonably be expected to develop the needed storage, production and treatment capacities.

### **Section 208, Wastewater Facility Plan**

Wastewater collection and treatment cannot be approached in a fragmented manner. Instead, it demands area wide planning and co-ordination between publicly owned treatment works, cities, sanitary districts, and privately owned wastewater treatment plants. Pursuant to that goal, Section(§) 208 of the Federal Water Pollution Control Act (Public Law 92-500) provided for the preparation of "Certified Areawide Water Quality Management Plans" and the designation of entities to manage sewage treatment facilities and sewage collection systems in the respective planning area.

The Maricopa Association of Governments ("MAG") is the designated water quality planning agency for the requested CC&N areas in this application. MAG has the authority to develop and approve general wastewater plans which include land development policies, service areas, objectives, principles and standards for local growth and development, and has the authority to designate and assign service territories. Az-Am Water has MAG authority for the additional capacity to treat the requested territory, via a Point Source approval process.

### **Arizona Department of Environmental Quality Compliance**

ADEQ regulates the water system under ADEQ Public Water System I.D. # 07-695 and the wastewater reclamation facility under Facility Number 37-018.

Compliance status was requested pursuant to the current rate application and ADEQ reported total compliance for the water and wastewater facilities. Due to the length of time, which has elapsed from the initial compliance request, Staff has asked DEQ for a second compliance determination.

### **Arsenic**

Some wells within Agua Fria service area exceed the January 2006, new arsenic standard. Az-Am Water plans on meeting the new standard by blending, retiring high arsenic wells, or treatment. The Company is currently performing a arsenic pilot study in its Sun City West District for the purpose of evaluating and selecting treatment processes and reactor media.

### **Arizona Department of Water Resources**

Az-Am Water is within the Phoenix Active Management Area ("AMA"), and consequently is subject to reporting and conservation rules. The Phoenix AMA reported that the

Company is in total compliance with the Arizona Department of Water Resources reporting and conservation rules.

It is recommended that the Arizona American Water Company shall file with the commission a copy of the developers' Certificate of Assured Water Supply, where applicable or when required by statute.

### **ACC Compliance**

A check with the Utilities Division Compliance Unit showed no outstanding compliance issues.

### **Proposed Plant for Requested Area**

Staff's recommendation for approval of this CC&N extension application and its submitted plant facilities does not imply a recommendation for any particular future treatment for Az-Am Water's rate base.

No "used and useful" determination of the proposed plant facilities was made, and no conclusions should be inferred for ratemaking or rate base purposes.

### **Proposed Rates**

Az -Am Water is proposing to extend service to the property at its tariffed rates.

### **Recommendations**

Staff recommends that the Commission grant the Arizona American Water Company application for an Extension to its Certificate of Convenience and Necessity to provide water service, subject to compliance with the following conditions:


1. That the Commission require the Arizona American Water Company to charge its existing rates and charges in the proposed extension area.
2. That the Commission require the Arizona American Water Company to file, with the Director of the Utilities Division, the Arizona Department of Environmental Quality approvals for construction of all water facilities, with the appropriate main extension agreement, within 365 days from the effective date of the Commission's Decision.
3. That the Commission require the Arizona American Water Company to file, with the Director of the Utilities Division, a copy of the Arizona Department Water Resources Certificate of Assured Water Supply for the proposed development within 365 days from the effective date of the Commission's Decision.

4. That the Commission's decision granting this extension to a Certificate of Convenience and Necessity to the Arizona American Water Company be considered null and void, without further order from the Commission, should Arizona America Water Company, fail to comply with condition 2 and 3 within the time specified.

## MEMORANDUM

TO: Jim Fisher  
Executive Consultant II  
Utilities Division

FROM: Barb Wells   
Information Technology Specialist  
Utilities Division

THRU: Del Smith   
Engineering Supervisor  
Utilities Division

DATE: February 19, 2004

RE: **RANCHO CABRILLO WATER COMPANY (DOCKET NO. W-03898A-04-0089)**  
**RANCHO CABRILLO SEWER COMPANY (DOCKET NO. SW-03898A-04-0089)**  
**ARIZONA-AMERICAN WATER COMPANY (DOCKET NO. WS-01303A-04-0089)**

Rancho Cabrillo has filed an application to transfer its water and wastewater CC&N to Arizona-American. In this application Arizona-American is requesting an extension of its water and wastewater CC&N to include not only the area being transferred, but portions of a section outside the transfer area.

Attached is a copy of the map for your files.

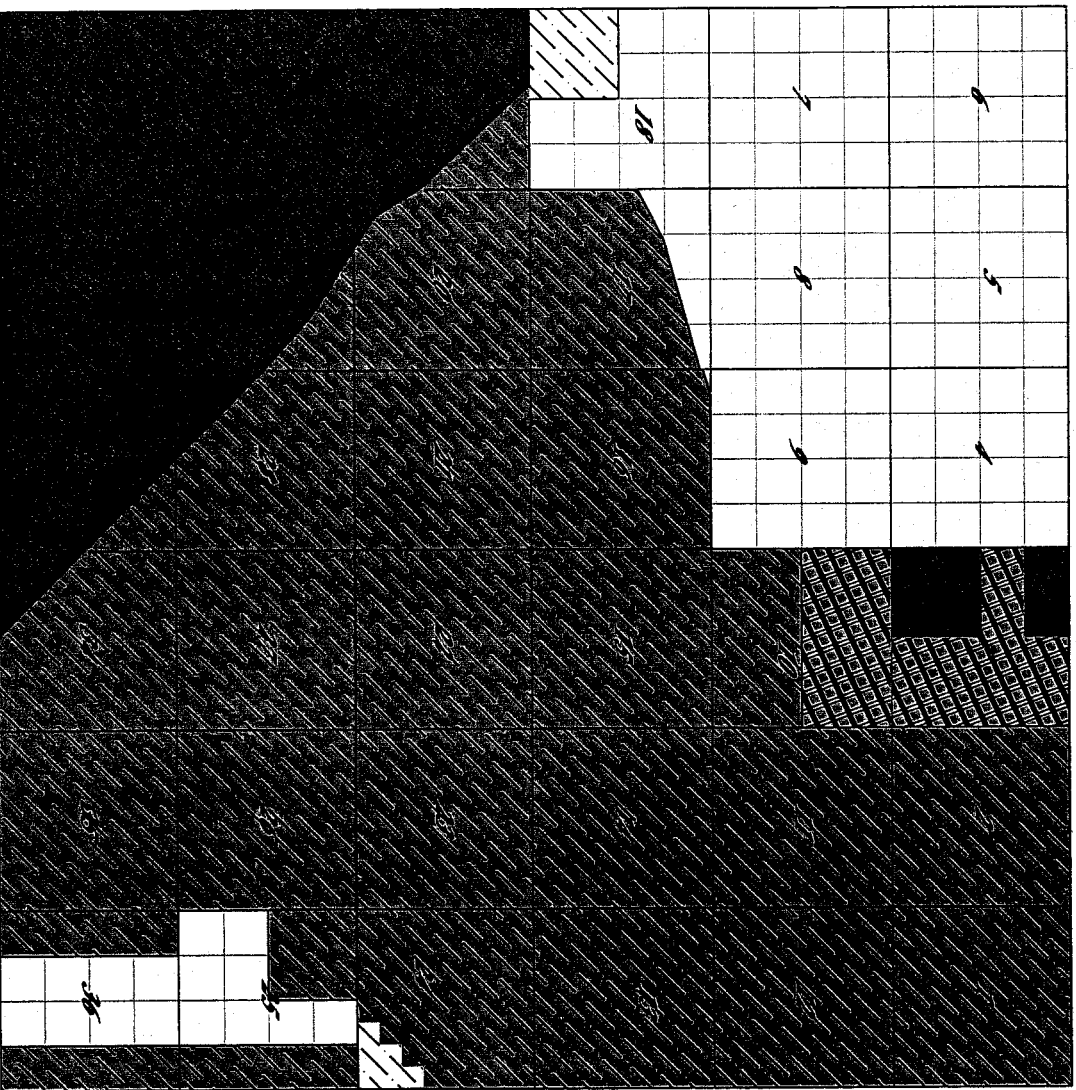
:bsw

Attachment









cc: Docket Control  
Mr. Michael Grant  
Mr. Blaine Akine  
Mr. Steve Robson  
Mr. Mark Dioguardi  
Ms. Deb Person (Hand Carried)  
File

# COUNTY: Maricopa

## RANGE 1 West



## TOWNSHIP 4 North

-  WS-1303 (14)  Arizona-American Water Company (Agua Fria)
-  SW-3898 (1) Rancho Cabrillo Sewer Company
-  W-3898 (1) Rancho Cabrillo Water Company
-  (4) City of Surprise (Nonjurisdictional)
-  Arizona-American Water Company  
Docket No. WS-1303-04-089  
Application for Extension (Water & Sewer)
-  Rancho Cabrillo Sewer Company  
Docket No. SW-3898-04-089  
Application to Transfer to Arizona-American Water Company  
Docket No. WS-1303-04-089
-  Rancho Cabrillo Water Company  
Docket No. W-3898-04-089  
Application to Transfer to Arizona-American Water Company  
Docket No. WS-1303-04-089

## EXHIBIT C

**Legal Description  
Certificate of Convenience and Necessity  
Arizona-American Water Company, Agua Fria Water District  
And Anthem/Agua Fria Wastewater District  
Proposed Water and Sewer Service Transfer Area From Rancho Cabrillo Water and  
Wastewater Company**

Township 4 North, Range 1 West of the Gila and Salt River Base and Meridian, Maricopa County,  
Arizona

The North half (N  $\frac{1}{2}$ ) of Section 10;

The East half (E  $\frac{1}{2}$ ) and the South half (S  $\frac{1}{2}$ ) of the Northwest Quarter (NW  $\frac{1}{4}$ ) Section 3.



## EXHIBIT F

**Legal Description**  
**Certificate of Convenience and Necessity**  
**Arizona-American Water Company, Agua Fria Water District**  
**And Anthem/Agua Fria Wastewater District**  
**Proposed Water And Wastewater Service Extension Area**

Township 4 North, Range 1 West of the Gila and Salt River Base and Meridian, Maricopa County,  
Arizona

The Southwest Quarter (SW  $\frac{1}{4}$ ) and the North half (N  $\frac{1}{2}$ ) of the Northwest Quarter (NW  $\frac{1}{4}$ ) Section  
3.